

ISSUES IN WELFARE

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The paper begins with a brief history of welfare in an attempt to trace the origins of current issues relating to social assistance.

HISTORY OF SOCIAL ASSISTANCE

The legislative and attitudinal bases of modern social assistance can be traced back to the Elizabethan Poor Laws of 1601 (1).

"The Poor Laws were based upon three principles: the responsibility of the state; limitation of this responsibility to those unable to take care of themselves; and the administration of social welfare through local units." (p.30)

The Poor Laws featured the use of tax funds for the relief of the poor. Prior to this time, the Church held the major responsibility for the poor.

The Poor Laws made the connection between work and welfare (1). The deserving poor were those whose circumstances clearly made it impossible for them to work -- young children, the very old, and

the severely handicapped. All other poor people were undeserving, including those who could not find or were denied work, and those with inadequate salaries. Workhouses were established for the undeserving. Distinguishing between deserving and undeserving depended on the applicant's ability and willingness to work. Work tests were devised to help with the determination. The essential element was that the applicant had to prove he or she really wanted to work, the underlying assumption being that any able-bodied person could find work.

The distinction between deserving and undeserving made it possible to blame poverty on the poor. In fact, the Poor Laws were based on the belief that people were poor because of their deficiencies in character: prosperity was seen as a sign of God's approval, poverty an indication of His anger. The subscription to this belief, instrumental in attaching a stigma to social assistance, still lingers.

The Poor Laws became the basis for financial assistance in North America up to the 1930's. (Although only the Atlantic provinces adopted the Laws, present welfare systems still reflect the original concepts.) Post-World War I developments parallel the evolution of the Canadian economy.

Old Age Security was implemented during the relatively prosperous 1920's. The Depression of the 1930's caught Canada ill-equipped to help those in dire need. Relief often consisted of in-kind benefits like food and clothing. By the end of the depression, however, monetary relief had become fairly widespread. Unemployment Insurance was instituted at the beginning of the second World War. With the war, the depression ended and a period of unparalleled growth followed with several more social programs eventuating. Family Allowances (1945) and the Canada Pension Plan (1965) were the major initiatives on the part of the federal government.

The Constitution, which gave legal powers respecting welfare to the provinces and financial powers to the federal government, also played an instrumental role in the growth of the Canadian welfare system. The Canada Assistance Plan (1966) gave the federal government some measure of indirect control over provincial social assistance schemes in return for cost-sharing. The Saskatchewan Assistance Plan, also established in 1966, conformed to the cost-sharing guidelines set forth under CAP.* In this way, a certain degree of uniformity and minimum standards were guaranteed across Canada.

The Saskatchewan Assistance Plan consolidated all needs-tested public assistance programs -- the Social Aid Program, Old Age

* Note that SAP was established before CAP.

Assistance, Blind Persons' Allowances, Disabled Persons' Allowances, Aid to Families with Dependent Children, and Supplemental Allowances for the aged and blind. For the first time, benefits were based on actual needs. The level of need was established for each case on the basis of a "needs test" using the "budget deficit" approach.

Except for benefit levels, SAP has changed little since 1966. Caseloads have hovered around 20,000 reflecting a stable though somewhat stagnant economy. A strengthening provincial economy in the early 1980's has been offset to a certain extent by the poor performance of the national economy. By 1982, high inflation, interest rates, and unemployment had taken their toll with growing numbers of "undeserving poor" seeking social assistance.

In sum, the two most important influences on social assistance caseloads are the economy and public opinion. While a poor economy acts to increase caseloads, public opinion tends to minimize the increase via stigmatization of recipients and pressure on the government to hold the line.

SOCIAL ASSISTANCE AND THE ECONOMY

Social assistance caseloads increase with rising population, unemployment, rising benefit levels, changes in government regulations, decreasing refusals for applicants, changes in social mores creating more single-parent families, migration and changing aspirations of non-whites, and addition of new programs (2). That non-economic factors affect caseload size is proved by the U.S. experience which saw caseloads more than double between 1950 and 1970 -- a time of unsurpassed increasing affluence. Although non-economic factors cannot be ignored, without considering the most important variable - the job market - the concept of employability becomes superfluous. Figure 1 illustrates the very close correlation between the number of unemployed and the number of SAP employables. A multivariate regression analysis on the data from Figure 1 indicates that the employment rate over time accounts for 87% of the variance of the fully employable caseload. This is good evidence that employables on SAP are increasing because of poor labour market conditions. Several research studies corroborate this contention (2, 3, 4, 5, 6).

Therefore, a large part of the recent increase in SAP employables can be attributed to the current economic slump. To worsen matters, persons at the lower end of the socio-economic scale are generally the hardest-hit during economic downturns. Low-skill, low-wage jobs, which these individuals generally fill, are usually those which are most sensitive to economic fluctuation, technological change, and shifts in management policy. Many of

these jobs tend to be unstable and short in tenure. Though employable and willing to work, these people often find that their only recourse is social assistance.

With 29,000 unemployed in Saskatchewan it seems preposterous to presume that ample job vacancies exist for SAP recipients. Nevertheless, the general public assumes that a job exists for any recipient who wants one. The history of welfare and the prevailing work ethic help explain the public attitude toward recipients of social assistance.

PUBLIC ATTITUDE TOWARD THOSE ON SOCIAL ASSISTANCE

A recent survey reported that a substantial and growing percentage (37%) of Americans expressed a negative attitude toward assistance recipients (7). Those on the lower end of the socio-economic scale resented the poor, seeing them either as in direct competition for their own jobs, or as potentially holding down wage scales because the poor may be willing to work for less. Those on the opposite end of the scale take an even dimmer view of recipients, believing themselves to have attained their social positions through personal accomplishments and that the poor should do likewise. The successful and well-educated group tended to blame the individual for poverty (poor people lack drive and ambition), while respondents in the lower strata more often believed the "system" (mainly lack of jobs) was to blame.*

The popular misconception holds that most people receiving social assistance are: (a) able to work, and (b) too lazy to do so (8-10). In actuality, only 19.5% of SAP clients are fully employable. The majority of recipients (54%) receive SAP because of age and disability**, personality problems, family problems, or absence of spouse. The general public would probably agree that supporting the unemployable is desirable, and that the able-bodied without children should be denied assistance if they refuse work. But there is conflicting sentiment as to whether single parents should be expected to work. The rising labour force participation of women has helped precipitate a considerable shift in attitude toward the employability of single mothers.

* Canadians may not be as negative toward those on assistance. A March 1982 Gallup Poll found that the largest group of Canadians (39%) blame unemployment on world economic pressures. Only 12% said that 'people not wanting to work' was the cause of unemployment. This represents a substantial decrease from 1977 when the largest single group (29%) felt 'people not wanting to work' was the main cause of unemployment. Another 22% blamed government. Whether this opinion about unemployment alters public attitudes of assistance beneficiaries is conjecture, but it seems a strong possibility.

** The proportion of aged and disabled on the caseload decreased substantially as of July 1, 1981 with the removal of 2,400 special care home cases from SAP. A Continuing Care Program introduced on this date provides for these patients.

The perception that assistance recipients are lazy and authors of their own circumstances is widespread. The reality is to the contrary. Assistance recipients generally adhere to the work ethic and are highly motivated to work (5, 11-13). They are victims of their circumstances. Usually characterized by a lack of education and skills, they are adversely affected during times of high unemployment. They develop attitudes of resignation and hopelessness, which become further impediments to finding a job. Notwithstanding the importance of intentions, attitudes and effort, the decision to work ultimately depends on the availability of suitable employment (14).

Naturally there are those who take advantage of the system by not making reasonable efforts to find and hold employment. These cases are rare but troublesome since they are given wide publicity, arouse intense resentment and feed the notion that recipients are lazy.

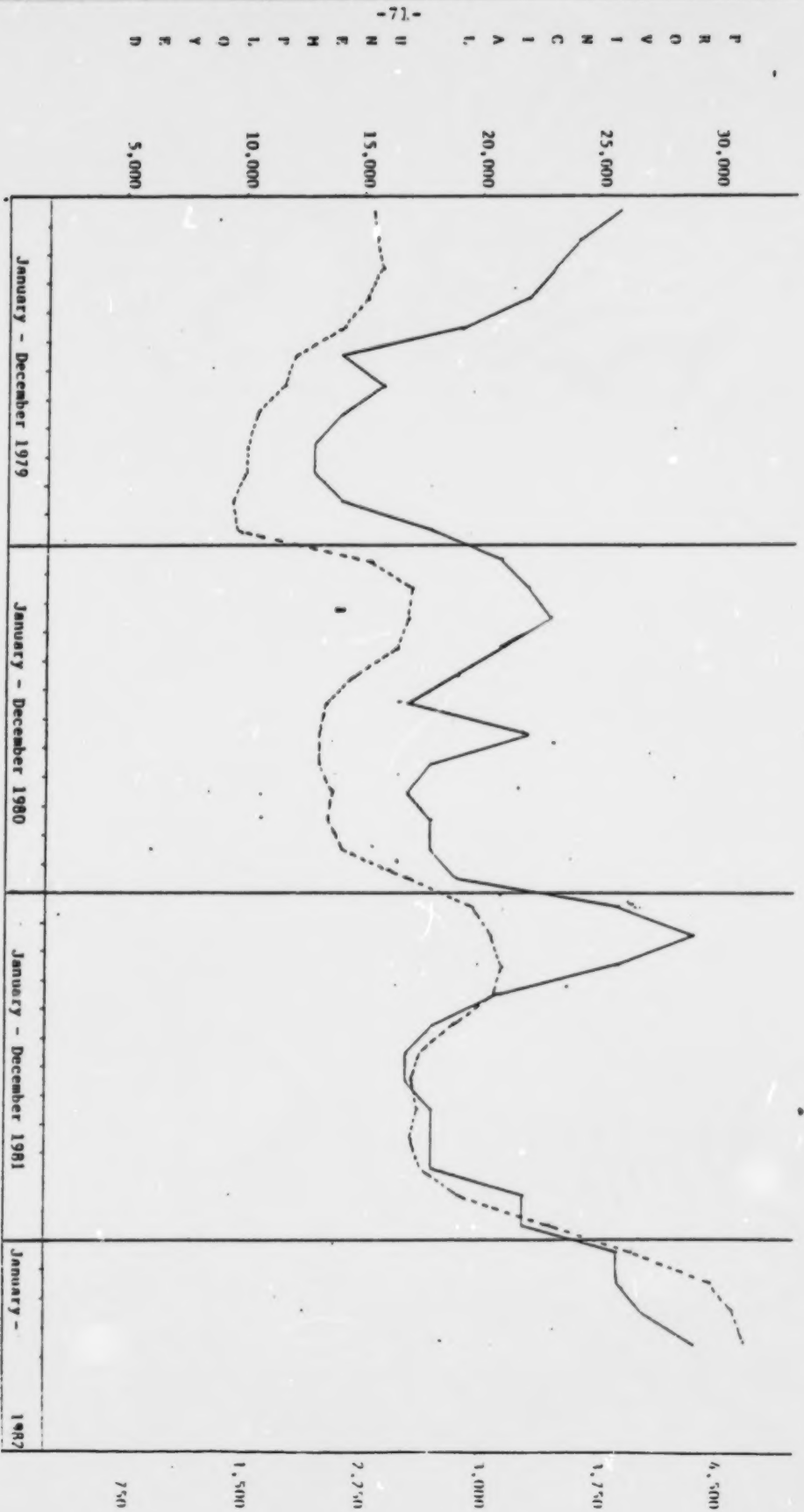
Thus, the stigma of receiving financial assistance remains. This stigma may serve to keep caseloads to a minimum, but when unemployment increases, it becomes a secondary consideration to benefit levels in deciding whether to accept relief (2).

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Figure 1

COMPARISON BETWEEN SASKATCHEWAN UNEMPLOYED AND SAP UNEMPLOYED EMPLOYABLES



SOCIAL ASSISTANCE IN CANADA

Saskatchewan Social Services
Planning and Evaluation Branch
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SOCIAL ASSISTANCE IN CANADA

Over eighty social programs, administered by various levels of government, constitute the Canadian income security system. It has evolved since 1867 in a piecemeal fashion, "governed by the dynamics of federal/provincial jurisdictional disputes and in reaction to economic and social circumstances" (1, p. 4). The objectives of the system are (1):

- assurance of adequate income through the distribution of cash and in-kind benefits;
- assurance of continuity of income by protection against unexpected interruption of earned income;
- maintenance of an incentive to work and end financial dependence; and
- assurance of a reasonable lifetime distribution of income through transfer to children and the aged.

The major income security programs, outlined in Table 1, may be classified as follows (1, 2): demogrants paid to certain categories of people regardless of their financial situation; social insurance programs paid on the basis of previous earnings and contributions; and income related programs paid on the basis of need. Today, about one in every six Canadians depends on social insurance or income related programs, over half of them completely dependent on this income for basic needs.

As the Canadian system evolved, various categories of persons, gradually came to be recognized as needing special programs to ensure future income (3). One by one, entire groups of persons were shifted from municipal relief rolls to provincially or federally administered programs, with social assistance (or welfare) remaining as "the safety net under all of these schemes, available to support those who did not qualify and those whose insurance or pension benefits were exhausted or were too low to provide necessities" (3, p. 1). This fragmented set of residual

TABLE 1
Major Canadian Income Transfer Programs

	<u>Date Enacted</u>	<u>Target Group</u>	<u>Administration</u>
<u>Demogrants</u>			
Old Age Security	1927	Seniors	Federal
Family Allowances	1944	Children	Federal
<u>Social Insurance</u>			
Unemployment Insurance	1940	Unemployed Employables	Federal
Canada Pension Plan	1965	Seniors, disabled, widowed	Federal
Workers' Compensation	varies	Disabled, widowed	Provincial
<u>Income Related</u>			
Canada Assistance Plan	1966	Residual	Federal/Provincial/ Municipal
Guaranteed Income Supplement	1967	Seniors	Federal
Spouses Allowance	1975	Spouses aged 60-64 of OAS recipients	Federal
Family Income Plan	1974	Children	Saskatchewan
Work Supplement	1978	Working poor families	Quebec
CRISP	1980	Children	Manitoba

programs was largely consolidated by the Unemployment Assistance Program and its successor, the Canada Assistance Plan (CAP). Now synonymous with social assistance in Canada, CAP is the primary focus of this paper. Since CAP is essentially the embodiment of programs for leftover categories of the indigent not earlier removed from municipal welfare programs via development of specific transfer programs, it is important to recount the history of the entire income security system before reviewing CAP program characteristics. Refer to Chart 1 for a concise overview of the evolution of Canada's income security system.

HISTORY OF CANADA'S SOCIAL WELFARE SYSTEM

Prior to Confederation, Nova Scotia and New Brunswick adopted Elizabethan Poor Law traditions under which each parish was obliged to care for its poor supported by a special local tax; Quebec followed the French practice of relying on Catholic charitable organizations, with almost all public assistance institutionalized; Ontario had a well organized municipal system in which localities could establish houses of refuge for the destitute; and other provinces developed systems similar to Ontario's (3, 6).

At confederation, little consideration was given to the allocation of responsibility for income support; it had been a local and private concern long before 1867 and remained that way. Provinces were thus given jurisdiction over social welfare. Municipalities provided limited assistance for only the most severe cases of poverty such as orphans, widows, the aged, and the disabled (4, 5).

WWI TO WWII Increasing financial burden on municipal agencies forced the provinces to begin sharing some of the costs of welfare shortly after Confederation. Grants for the support of private agencies or charities became a regular provincial activity. The 1914 Workmen's Compensation Act of Ontario ushered in a period of growing provincial involvement in social welfare.

World War I gave impetus to two further advances: Manitoba's 1916 introduction of Mothers' Allowance for widows with dependent children; and the first federal involvement in social welfare - the establishment of veterans' pensions and disability schemes (4, 5). Other provinces followed with workmen's compensation and mothers' allowance plans of their own.

Reacting to considerable pressure from the public, labour, and government committees, the federal government furthered its role in the welfare field with a major innovation in 1927 - the Old Age Pensions Act. Though technically a provincial responsibility, the provinces realized that only the federal government had the funds to run such a non-contributory scheme and did not object to its implementation. The plans were optional and provincially managed, however, with the federal government contributing half the costs. Those aged 70 and over were eligible contingent upon meeting a means test and 20 years' residence in Canada. Blind persons were added to the eligibility list in 1937. Old Age Pensions started a major trend in the Canadian social welfare system - combining the spending power of the federal government with the legislative authority of the provinces to develop welfare programs (3). Moreover, the passage of this Act confirmed another trend: federal and provincial governments designed categorical programs for well-defined groups seen to be "deserving" of aid (5).

The Depression shaped the next stage in the development of the welfare system. Providing unemployment relief forced many municipalities into bankruptcy, and greater provincial and federal involvement became essential (6). Beginning in 1930 and renewed yearly, Dominion Unemployment Relief, a federal program providing conditional grants to provinces and municipalities for dealing with unemployment, led to the 1935 Employment and Social Insurance Act - the Canadian "New Deal" - which mandated a system of compulsory unemployment insurance to be funded by the federal government and employer/employee contributions. This Act was subsequently determined to be outside the authority of the federal government and struck down, but, after securing the unanimous

approval of the provinces, was passed in 1940 as the Unemployment Insurance Act. Giving exclusive jurisdiction to the federal government, the measure was significant in that the working poor were finally granted some security, at least on a temporary basis. Passage of the Act, however, ended the shared-cost unemployment relief measures enacted during the Depression thereby worsening the plight of employables who failed to qualify for unemployment insurance as provinces, assuming that the federal government had taken responsibility for all unemployed persons, reduced their support: municipal welfare again became their only source of income (3).

WWII TO 1955 World War II witnessed the start of more interventionist policy on the part of governments in an attempt to avoid a repetition of the dismal economic conditions of the thirties. Family allowances were instituted in 1945 principally to avoid an anticipated post-war recession by maintaining purchasing power, and to provide for the basic needs of children: there were also political reasons with an upcoming federal election and the rising threat of the CCF (6, 7). The program paid universal flat-rate grants varying by age to children under 16 (later increased to age 18). With payments financed from general revenues, it marked the first noncontributory program that did not have a means or income test, and as such, required no constitutional amendments (5).

Also of note during the 1940's were the federal Green Books which propounded a nation-wide social security system, the federal government offering to extend unemployment insurance to all unemployed employable persons, leaving the provinces and municipalities only the unemployables. The plan was scuttled due to opposition from Quebec and Ontario.

In 1951, the next major innovation took place in the income security system: the Old Age Security and Old Age Assistance Acts established a new two-tiered pension scheme, the first fully financed and administered by Ottawa providing universal monthly pensions to those aged 70 and over, and the latter a provincially administered means-tested plan with federal cost sharing of 50% for those between 65 and 70. Thus, another group of needy - persons aged 65 to 70 - were taken from municipal caseloads and placed in a more equitable federal-provincial program. These two pension revisions paved the way for full federal control of pension programs.

Also in 1951, blind persons' allowances were separated from old age pensions, with the provisions and criteria remaining as before; means-tested benefits with Ottawa incurring 75% of the cost). Other disabled groups were addressed by the 1954 Disabled Persons' Act which was very similar in nature to the Old Age Assistance Act - a provincially administered federally shared (50%), means-tested program. This legislation helped establish a pattern of provincial responsibility for long-term cases and municipal responsibility (with provincial cost-sharing) for short-term employables.

By the mid-fifties, then, Canada's social welfare system was taking shape. Major categories of the poor were identified as deserving of special programs and systematically removed from municipal rolls, each innovation followed by incremental changes in benefits and eligibility criteria (6). Social assistance was becoming progressively more residual with standards leaving much to be desired. The unemployed remained ineligible for any assistance in some provinces.

Unemployment Assistance One of the Green Book proposals resurfaced in 1956 as the Unemployment Assistance Act. The legislation, resulting from provincial pressure for a supplementary welfare plan for those temporarily unemployed due to the economic downturn of 1954, provided for federal reimbursement (to any

province signing the agreement) of one-half the provincial and municipal social assistance expenditure. (Initially, the first .45% of the population were excluded because they were presumed to be unemployable or mothers' allowance recipients but this was later rescinded.) No limits were placed on the amount of assistance the federal government would share (3). Conditions of eligibility were unemployment and need. All provinces joined the program by 1959.

Unemployment Assistance was a significant development for several reasons (3, 5, 6): for the first time assistance was extended to employables not covered under unemployment insurance or provincial programs; it provided the impetus for provincial assumption of control over welfare from the municipalities; provinces were able to develop more comprehensive social assistance plans with extended federal funding; and it was an important step towards the development of the Canada Assistance Plan.

1960 TO 1965 Canada's income security system entered the sixties with three federal programs: family allowances, unemployment insurance and old age security; two provincial programs: * mothers' allowances and workmens' compensation; and four federal/provincial programs: unemployment assistance and the categorical programs - old age assistance, blind persons' allowances, and disabled persons' allowances. There were no additional municipal supplementary programs. Provinces were beginning to complain about the categorical approach to welfare and were particularly concerned with attaining cost-sharing for their own categorical program, mothers' allowance (3,6). Several provinces transferred their mothers' allowance caseload to unemployment assistance to benefit from cost-sharing, but had to pay a financial penalty for doing so.

* Some provinces also operated other provincially enacted programs, all of which were later amalgamated into the Canada Assistance Plan. For instance Saskatchewan operated Aid to Dependent Families, Social Aid, and Supplemental Allowance in addition to the provincial programs found in every other province.

The development of budget-deficit needs tests in the four Western provinces, resulting from dissatisfaction with the means test as the basis for eligibility determination, was regarded as a major step toward integrating the categorical welfare programs (3, 6). Soon after, negotiations began between Ottawa and the provinces for a federal social assistance program which would combine the four categorical programs and determine eligibility on the basis of need.

Meanwhile, there were important developments transpiring in the area of pensions. First, contributory retirement plans, the Canada/Quebec Pension Plans, were established in 1966, providing for a pension of 25% of maximum pensionable earnings averaged over the contributor's working life (5). Contributors aged 65 and over were eligible (disability pensions became available in 1970). Contributions were split by employers and employees, each paying 1.8% of salary to an annual maximum. Second, changes were made to the Old Age Security and Old Age Assistance Acts for accomodation with CPP: the qualifying age for Old Age Security was reduced to 65 from 70 over a five year period beginning in 1966; Old Age Assistance was largely superceded and eventually phased out. Next, a new federal income tested program was implemented, the Guaranteed Income Supplement, to assist those who did not qualify for CPP and those whose pension benefits were very low. Initially intended to be phased out in 1976 when full pensions took effect, it has become a permanent program (3, 5). Finally, Spouse's Allowance, a federal program to provide financial assistance to spouses aged 60-64 of OAS recipients, was instituted in 1975.

Canada Assistance Plan The Government of Canada enacted the Canada Assistance Plan in 1966. The result of harmonious negotiations between the provinces and federal government, the plan was developed between 1963 and 1965 and was designed to consolidate and replace the Unemployment Assistance program and the four categorical plans

for the aged, blind, disabled, and single mothers (8). Aside from this consolidation, it broadened the scope of social assistance in Canada by liberalizing eligibility guidelines (e.g., inclusion of the working poor) and sharing provincial welfare expenditures for administrative costs, health services, rehabilitation and preventive welfare services, child welfare services, work activity projects, and Indian welfare programs. Moreover, CAP guaranteed a certain degree of uniformity and minimum standards across Canada by requiring provincial assistance plans to: be based on a needs test; incorporate a right to appeal for recipients; and remove residency requirements for eligibility (5, 8, 9). CAP aimed to achieve two main goals: an adequate level of assistance for the indigent; and an attenuation of the causes of poverty and dependency on welfare (9).

All provinces signed a CAP agreement in 1967, Quebec only after a provision for opting out was included. The federal/provincial categorical programs were phased out, old age assistance in 1969 and blind and disabled allowances in 1981. Unemployment assistance terminated in 1974.

The program was not highly innovative - being primarily a consolidation of already existing programs, nor did it arouse much interest in the public. It passed Parliament with little opposition during the euphoria of the War on Poverty, on the coattails of the CPP (6). Nevertheless, CAP did have some almost immediate positive results (6):

- An increase in provincial levels of assistance and coverage of a wider range of needs;
- Administration was very much simplified as provinces replaced 5 programs with one and several moved to take responsibility for delivery of welfare from municipalities;
- Equity improved as variation in interprovincial rates narrowed somewhat;

- Preventive, rehabilitative, child welfare, and health care services improved; and
- Establishment of appeal procedures and removal of residence requirements.

In short, "provincial welfare programs are unquestionably improved as a result of CAP" (6, p. 282).

Collapse of Reform Efforts in the Seventies After CAP, a Senate Committee, welfare rights activists, the provinces, and all three national political parties began to press for guaranteed annual income schemes, usually through a negative income tax approach. The widespread support augured well for its passage, but it was not to be.

Federal-provincial relations dominated Canadian politics throughout the late 1960's and 1970's. As such, the impetus for reform in the social policy area came as much from jurisdictional disputes as from a concern of wastefulness of social programs and a feeling that CAP was not the answer to poverty (10, 11). In this atmosphere, the federal government proposed increased aid to the poor in its 1970 white paper, Income Security for Canadians. The paper proposed that the universal Family Allowances be converted into a selective guaranteed income program, the Family Income Security Plan (FISP). This loss of universality plus FISP's avowed intention to make provincial social assistance "increasingly less important" ensured the program would never eventuate (10). In the meantime though, Parliament passed measures that increased Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) benefits as well as liberalizing benefits and eligibility under Unemployment Insurance.

The Social Security Review The 1972 federal election saw the Liberals return with a minority government. To gain the support of the New Democratic Party, the government pledged to expand welfare (10,11). Another incentive for reforming welfare was the collapse, in the summer of 1971, of a major attempt to patriate the Canadian Constitution (11). Quebec claimed that it would not support the "Victoria Charter" because it failed to provide a jurisdictional settlement in the field of social policy. Finally, Ottawa pushed for a review of welfare in order to regain the initiative in social policy which had been taken by Quebec's Castonguay-Nepveu report.

Thus, in 1973, the federal and provincial governments again embarked on welfare reform. Entitled, A Working Paper on Social Security in Canada, the federal proposals were popularly known as the "Orange Paper", and the policy review it initiated was called the Social Security Review.

Three federal-provincial working parties were established for the review (11). One dealt with an employment strategy, one with personal social services, and the third with income maintenance and social insurance. The employment strategy disappeared by mid 1978. Fifty million dollars was approved for the Community Employment Strategy but few projects got beyond planning stage. The working party on social services advanced a shared cost proposal and the federal government proposed a block funding scheme to parallel health insurance funding, both of which died in Parliament for austerity reasons. The third working party moved forward quickly to improve family allowance and pensions. The cost of these improvements plus recent increases in UI benefits left little money to work with for the main proposals in the review. Six basic options were outlined by the federal government in late 1974. Federal-provincial disagree-

ments eventually doomed the proposals by delaying reforms until they had no chance of passing due to their high cost (\$2 billion) in a time of fiscal restraint. Ottawa eventually acquiesced to provincial administration of the supplementation program, and cut proposed costs considerably by restricting eligibility but Ontario rejected the revised program - enough to finish it. Instead, the federal government unilaterally implemented a refundable Child Tax Credit in 1978 delivered through the federal tax system (while reducing family allowance payments). In addition, UI eligibility regulations were tightened up and GIS increased.

In the wake of the failure of these extensive reform efforts, CAP has survived relatively unchanged since its inception.

The history of the Canadian system completed, the paper now turns to an overview of the present social assistance system.

CANADA'S PRESENT SOCIAL ASSISTANCE SYSTEM

Canada does not have a unitary program of social assistance, rather each province runs an independent program, the only connection between them being CAP. This link with CAP ensures that the parameters of all programs are similar, though there are wide variations in detail. The general design features of Canadian social assistance programs will be enumerated in the following sections, with reference to specific provincial programs where warranted.

Administration Each province administers its own program of social assistance with the federal government picking up half of the shareable costs for benefits, services and administration. There are two basic patterns of delivery:

- Provincial/Municipal where the province directly supports long-term unemployable clients and single parents, and the municipalities provide short-term or emergency support, usually for employable persons. Although the municipalities deliver the program to employables, the federal government still covers 50% of shareable costs and the province usually assumes more than half of the remaining portion. Three provinces - Nova Scotia, Ontario and Manitoba - operate such decentralized programs
- Exclusive provincial responsibility for welfare is found in the other seven provinces. Although municipalities may still deliver programs in limited areas, the province and Ottawa cover all costs.

Administrative costs for social assistance, generally among the highest in the income security area due to mandatory needs testing for each individual, hover around 8% of total benefit expenditures (12).

Newfoundland, New Brunswick, Quebec, Manitoba (except Winnipeg and Brandon) and Alberta have separate financial and personal service delivery. All other provinces combine income maintenance and social services, normally with social workers handling both functions. (PEI, which had separated services in the early seventies, has now reintegrated delivery.)

Eligibility and Benefits Conditions of eligibility and rates of assistance are set by each province and hence vary considerably. Under every plan, receipt of social assistance depends on meeting a needs test. Financial assistance is available to those who do not have the money to meet their basic needs - food, clothing, shelter, fuel, utilities, household supplies, and personal necessities - as well as certain special needs deemed essential for safety, well-being, and rehabilitation (13). Each jurisdiction subtracts countable income from benefits, exempted income usually including child tax credits, property and renters' rebates, family allowances (except in Saskatchewan), and a certain portion of earned income to maintain an incentive to work. In addition, there are strict limitations on liquid assets.

Every program has a minimum qualifying age which ranges between 16 and 19. Those recipients considered employable are required to search for work; some provinces such as British Columbia have set lower benefit schedules for employables.

Provinces and municipalities have the right to establish maximum payments regardless of the level of need. With this provision, and the somewhat arbitrary definition of needs and countable income, differences among the provinces are expected. Every jurisdiction pays below the poverty line.

Two provinces, Nova Scotia and Quebec, have statutory provisions for the indexing of benefits. Both adjust benefits to reflect changes in the Consumer Price Index.

Dependency Rates As of February 1983, there were nearly 1.8 million Canadians depending on social assistance, representing 7.3% of the population: a total of 920,000 cases were enrolled on the Canada Assistance Plan. Including caseload turnover, the proportion of Canadians who received welfare in 1982 probably surpassed 10% of the population. Employables, which represent an increasing proportion of the caseload (as the number of unemployed increased by 50% over the previous winter), have been most responsible for a caseload surge of 20% from the winter of 1982.

Dependency rates have been historically higher than the national average in the Atlantic provinces and Quebec, lower in Ontario, and about equal to the national average in the Western provinces (13).

Supplementary Programs Several provinces run special programs in conjunction with social assistance (1, 5):

- Ontario and British Columbia have separate programs for the disabled and B.C. has a special program for recipients aged 60 to 64 which provide a guaranteed annual income to those eligible;
- Six provinces operate programs which supplement the GIS for residents over 65;
- PEI and Quebec offer family allowance supplements;
- The Saskatchewan Family Income Plan (FIP) provides benefits to low-income families with children in order to ensure that families are always better off working than on welfare. The working poor and welfare families are eligible;
- The Quebec supplement for the working poor provides benefits to families to encourage them to continue working. The supplement is calculated from the earned income of the previous year; and
- Manitoba's Child Related Income Support Program also pays benefits to low income families with children and is similar in nature to FIP.

CONCLUSION

As stated previously, CAP improved social assistance in Canada by achieving portability of benefits, better equity across provinces, more uniform standards, simplified administration, and by providing a wider range of benefits and services than under the previous categorical plans. In general, the provinces are quite satisfied with CAP (14) though several problems remain with the program (1, 6, 15):

- The system is confusing to clients and the public;
- There are still major gaps in the system, particularly the exclusion of the working poor in most provinces;
- As the residual program in Canada's income security system, social assistance is particularly vulnerable to unilateral changes in other social programs - both in terms of costs and program responsibilities. Program changes by the federal government or even by different departments in a provincial government may have deleterious effects on social assistance;
- Responsibility for and eligibility of employables has not yet been satisfactorily resolved;
- The political sensitivity of the programs has made consultation and cooperation between governments difficult;
- Incentives to get off social assistance are lacking in some jurisdictions;
- Provinces design programs within the constraints of the guidelines on shareability, often an impediment to innovative changes;
- The poorer provinces believe the 50-50 sharing formula is a burden;
- Migration from other provinces has been a problem for British Columbia and Ontario;
- Involvement with social assistance remains stigmatic;
- Wide disparities continue to exist in benefit levels between provinces; and
- Maximum benefits in all provinces are below the poverty lines suggested by the Canadian Council on Social Development and Statistics Canada.

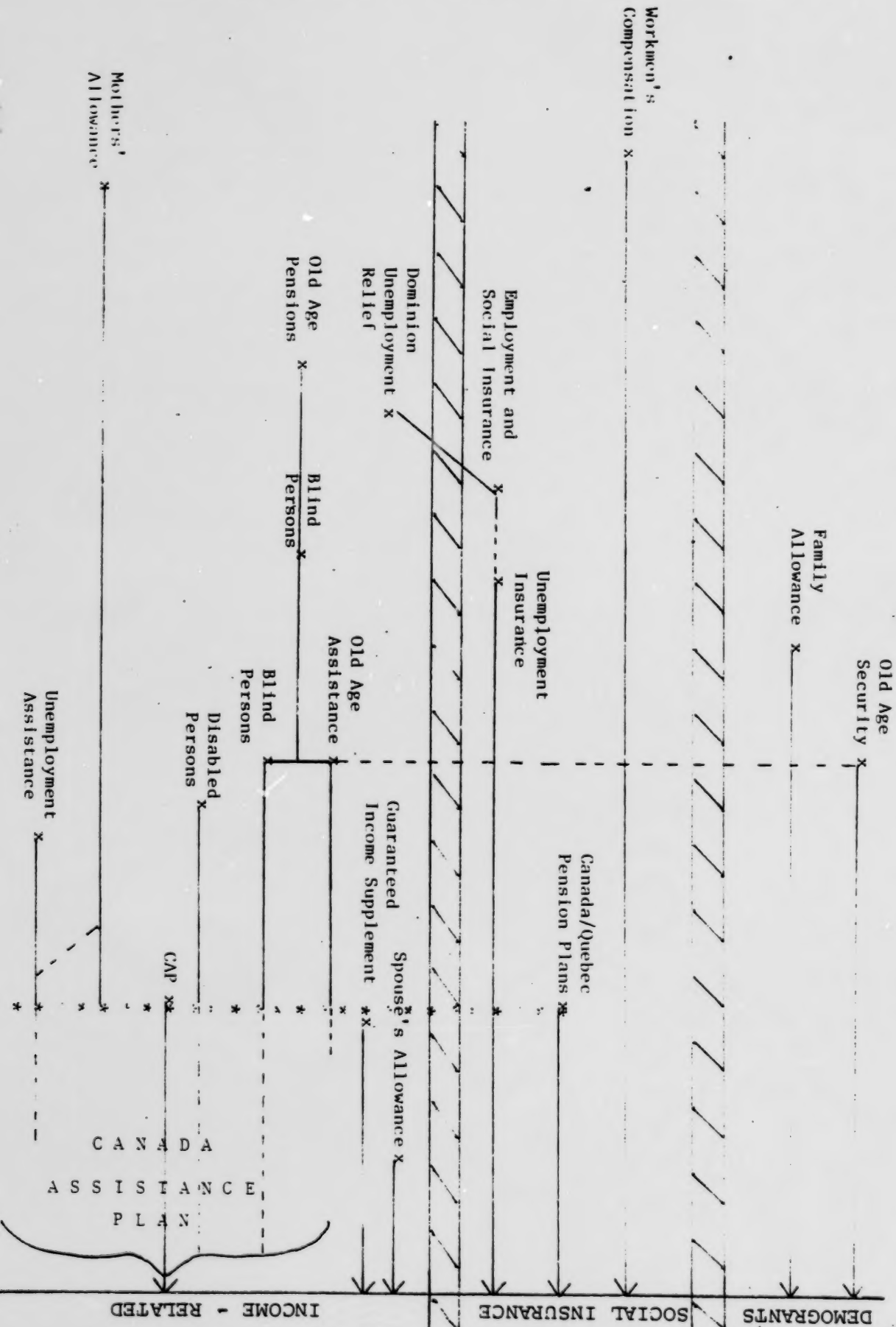
Nevertheless, social assistance is an important part of the Canadian income security system which, along with increases in the GNP, has been responsible for a substantial diminution of poverty since the second world war (16). When viewed in isolation, CAP functions quite well, especially in comparison to the extremely complicated American system. But CAP is part of a fragmented, uncoordinated, often inadequate social security system: most of the problems addressed by the Social Security Review remain. The current system, built upon the assumption of full employment, awaits either a more inviting political and economic climate to make reform possible or further increases in unemployment to make reform necessary. The centerpiece to this reform would probably be the guaranteed annual income which is "an almost inevitable evolution of our present income security system" (15, p. 93). Until that time, CAP should suffice as a responsive, residual program for the indigent in Canada.

BOB POWER

Local Care of Widows, Unemployables, and Orphans

CHART 1

Evolution of Canada's Income Security System



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THE AMERICAN WELFARE SYSTEM

PLANNING & EVALUATION

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THE AMERICAN WELFARE SYSTEM

In the United States, there is no comprehensive and unified social welfare system. Rather it is a series of more or less interrelated systems which have developed independently and incrementally, each having its own history and political constituency (1 - 3). The programs do not act in concert to achieve an overall goal; they often interact to produce undesirable effects such as inhibiting work effort. Yet, ironically, these diverse programs are all derived (with the exception of General Assistance) from a single piece of legislation, the Social Security Act (4).

Table 1, which lists the major programs of the American income maintenance system (5, 6), indicates the system is comprised of a social security component (financed through beneficiary and employer contributions with the objective of assuring a minimum income) and a needs-tested public assistance component (financed through taxation). This paper is concerned with the latter set of programs, usually referred to as "welfare". Each program will be examined separately and then the extent to which they form an effective system will be discussed.

Welfare Programs

Public assistance programs may be divided into those distributing cash and those distributing non-cash or "in-kind" benefits designed to restrict consumption to a particular good or service. Cash grant programs include Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and General Assistance. Figure 1 illustrates the post World War II trend in the number of recipients. Medicaid, food stamps, and housing are the major in-kind aids; an increasing proportion of social assistance is granted in the form of such goods and services as shown in Figure 2.

Table 1

Major U.S. Income Transfer Programs

		1981 (est)	
		Public Expend.	
<u>Social Insurance</u>	<u>Date Enacted</u>	(Billions of Dollars)	<u>Administration</u>
Cash benefits:			
Social Security (OASDI)	1935	\$137.0	Federal
Unemployment Insurance	1935	18.7	Federal-State
Workers' Compensation	1908	14.8	State
Veterans' Disability	1917	7.5	Federal
Railroad Retirement	1937	5.2	Federal
Black Lung	1969	0.9	Federal
In-kind benefits:			
Medicare	1965	38.4	Federal
 <u>Public Assistance (welfare)</u>			
Cash benefits:			
AFDC	1935	12.8	Federal-State
SSI	1972	8.5	Federal
General Assistance	varies	1.5	State
In-kind benefits:			
Medicaid	1965	27.6	Federal-State
Food Stamps	1964	9.7	Federal-State
Housing	1937	6.6	Federal-State

Sources: 5, 6

AFDC

Aid to Families with Dependent Children, the major cash assistance program, provides for the care of children in needy single parent families. As defined in the Social Security Act, the objectives of AFDC are: (3)

to enable each state to furnish financial assistance, rehabilitation, and other services in order to encourage the care of dependent children in their own homes or in the homes of relatives with whom they are living, to help such parents or relatives to attain or retain the capability for self-support, and to help maintain and strengthen family life.

In 27 states, two parent families, in which the father is unemployed or working less than 100 hours per month, has not refused employment, is ineligible for unemployment insurance, has registered with the State Employment Service, and has worked previously, are eligible for the AFDC-UP (unemployed parent) program.

The 1909 White House Conference on the Care of Dependent Children, advocating that children should remain in their house whenever possible and not be removed for economic reasons, gave impetus to a mothers' allowance program which enabled widowed and deserted women to care for their children (1, 2, 7). From this concept came the Aid to Dependent Children program enacted in 1935 as Title IV of the Social Security Act, providing financial benefits to children under 16 deprived of parental support. In 1950, aid was extended to the parent or guardian, and in 1961, provision was made for states to adopt the AFDC-UP program. By the late sixties conditions of financial aid were tightened with recipients obligated to enter the Work Incentive Program (WIN). Thus, a major component of the program became encouraging mothers to work, in stark contrast to the original goal of keeping mothers in the home.

Administration The Social and Rehabilitation Service of the federal Department of Health and Human Services administers grants to the states (which are required to offer AFDC). The states administer the program directly or supervise county administration. Expenditures for administration are shared equally by the federal and state governments. In addition, the federal government shares expenses for the actual benefits in accordance with the principle of equalization using the following reimbursement formula: $1 - 0.45 \left(\frac{\text{state per capita income}}{\text{U.S. per capita income}} \right)^2$.

The federal share, ranging from 50% to 65%, has been increasing steadily (2).

Eligibility and benefits Families must meet income and asset tests, exempting food stamps, commodity distributions, relocation assistance, and student loans. Children must be under 18 (or under 21 and attending school). Recipients must register for work. Work incentives include a \$75 flat monthly rate for work expenses, a child-care exemption of up to \$160/month, a \$30 disregard, and a 33% exemption after the \$30 which applies for only 4 months. Unearned income is taxed at 100%. As of October 1981, federal regulations set eligibility at 150% of the state's need standard*, effectively disqualifying many working recipients. "Essentially people need to be devoid of both income and assets to be eligible for AFDC support" (1, p. 182).

Benefits, determined by subtracting countable income from needs, vary widely from state to state since states determine payment levels, and some eligibility requirements. The average payment in October 1979 ranged from \$88 in Mississippi to \$389

* Needs standards established by each state (Appendix A) reflect the cost of rent, utilities, food, clothing and other basic expenses. Not only does this standard vary between states, but diverse rules determine the difference between need and payment. Only 27 states pay the full need standard; others pay lower than the standard or pay a fixed percentage - often less than two-thirds of the needs standard (Appendix B).

in Hawaii (8). Some difference would be expected to allow for variations in the cost of living, however \$300 points to inequities in the program.

Assessment AFDC aids 4½ million families providing basic necessities for the indigent - 94% of benefits in 1977 went to the poor (2). Its inequities and spiralling cost, however, have subjected the program to severe criticism. The epitome of the so-called "welfare mess", AFDC has become a symbol of the need for reform (2).

SSI

Under a 1972 amendment to the Social Security Act, the adult assistance categories - old age assistance, aid to the blind, and aid to the permanently and totally disabled - were replaced by the Supplemental Security Income program effective 1974. SSI is a guaranteed income program for the aged, blind, and disabled providing nationally uniform benefits to well over 4 million people.

Administration SSI is administered federally by the Social Security Administration of Health and Human Services. Usually delivered through the local offices of the Social Security Administration, state and local agencies may administer the program in some cases. All costs are the responsibility of the federal government, though 41 states choose to offer beneficiaries a supplement, which may be administered by the state or the federal government. The former categorical programs were state-run and federally matched.

Eligibility and Benefits Those who are blind, disabled, or aged 65 or over are provided monthly cash benefits if income and assets fall below specified national standards; payments are made to bring income up to this minimum (9). There is no

work requirement or provision for help from relatives. Liquid assets are limited to \$1,500 (\$2,250 couple). Eligibility criteria are nationally uniform.

Benefits are increased along with Social Security adjustments. In July 1981 the maximum federal SSI payment was \$265 for an individual and \$397 for a couple (10). There is an earnings reduction rate of 50% after a \$65 exemption and unearned income is taxed at 100% after a \$20 exemption. Almost 2 million people receive state supplements.

Assessment SSI transferred 3 million people from state and local rolls to the federal register. About half of these beneficiaries received an immediate cash increase, and none suffered a reduction (due to mandatory state supplements in those states then paying more than the SSI guarantee). The program is, therefore, equitable. That the blind, disabled and aged are seen as more deserving of aid than AFDC recipients is clear from the more generous benefits and more humane administration. Although some states are contracted to administer the program, there is nowhere near the duplication of administration as under the previous system. There are still assets and means tests which complicate administration but insure that only the needy benefit.

General Assistance

Most states and localities operate a residual program of income maintenance usually referred to as general assistance (GA) or home relief. Not subject to federal rules, the programs vary considerably between, and even within, states. "The comprehensiveness of GA programs runs the gamut, from locally run programs

offering only free groceries and shelter on an emergency basis, to statewide programs offering long-term cash supplements to any needy person not covered under AFDC or SSI" (11, p. 23). There are over 5,000 units of government offering some type of GA (2). Caseloads hover around 1 million nationally.

Administration All GA programs are funded and administered by state and local governments. In 15 states, GA is administered statewide by the same agency that operates AFDC. Seventeen states require localities to offer GA but specify no parameters. Nine states have no responsibility at all for the local programs (2).

Eligibility and Benefits Again, there are wide variations in the eligibility standards and benefit levels. The basic eligibility criterion is need: the programs are means tested with no income disregarded; many states compel registration with the employment service; there are often relative responsibility rules; several states have residency requirements (1). In many states all funds must be exhausted for eligibility; employables are often automatically excluded; workfare is part of many programs (7).

Benefits are frequently the judgement of the local caseworker. Some states set maximums. Medical care, food stamps, transportation, and commodities may be part of the program.

Assessment GA is commonly poorly funded and administered (12). It fails to help many of the poor; it is inequitable (in 1979, three states - Illinois, Pennsylvania, New York - accounted for two-thirds total GA expenditure); it reduces work effort;

it encourages migration; it is stigmatic and violates the civil rights of eligible individuals; and "it continues to exist only because of the failure of comprehensive reform packages" (2).

Medicaid

Signed into law in 1965 as the culmination of a 20-year debate on the role of the federal government in the delivery of health care, Public Assistance Health Care Titles XVIII and XIX of the Social Security Act created Medicare and Medicaid. Medicare is a national health insurance program funded through social security tax which provides hospital care (and nonhospital medical care if the beneficiary chooses to pay the premium) to all senior citizens, as well as many widows and physically disabled people. (Since it is not a public assistance program it is beyond the purview of this paper.)

Medicaid, launched to replace a fragmented system of medical assistance to recipients of separate welfare programs, offers medical care to the needy - most often welfare recipients who become automatically eligible for medical assistance upon qualifying for welfare. Initially perceived as a minor extension of the Medical Assistance for the Indigent Aged Act of 1961, it has grown into the largest welfare program in the United States with annual expenditures approaching \$30 billion.

Administration The program is administered by states choosing to offer it with the Social and Rehabilitation Services of the Department of Health and Human Services providing grants to cover from 50 to 78% (depending on the wealth of the state) of the total cost. In most states, Medicaid is administered by the same agency that runs public assistance, but several states place it in the department of health and one has a Medicaid commission (1).

Eligibility and Benefits Medicaid serves needy families with children, and those who are aged, blind, and disabled. Congress restricts Medicaid to those with an income of no more than one-third the AFDC income cut-off. AFDC, SSI and certain other recipients are entitled to the service (except in Arizona which does not operate a program). For those without categorical eligibility, the program is needs- and assets-tested. Such "medically indigent" persons are eligible in 32 states.

Recipients receive in-kind medical services including inpatient and outpatient hospital services, laboratory and X-ray services, nursing home services, family planning services and physician services (9). Amount or level of benefits may vary across the country. Some states may require beneficiaries to pay a user fee for hospital services.

Assessment Although short of a universal health care system, Medicare and Medicaid provide essential health services to those who can least afford them. The major problem with Medicaid occurs in states with no medically indigent eligibility. Those who lose categorical eligibility upon leaving welfare forfeit all Medicaid benefits causing a serious work disincentive, and inequities. Fraud has been a continuing concern in medical care programs because Congress, anxious to avoid charges of "socialized medicine", does not monitor the programs.

Food Stamps

Begun in 1964 as a surplus disposal/nutrition enhancing project, the Food Stamp Program has evolved into a \$13 billion transfer program benefitting over 20 million people. Food stamps are coupons which are exchanged at face value for food at retail stores. The program has been subjected to a series of cutbacks in recent years in response to greatly expanding costs and caseloads, and a weak economy.

Administration Administration is shared by the federal, state, and local governments. The U.S. Department of Agriculture pays the full cost of benefits and half of the administration costs, with the states picking up the other half. States most commonly deliver the program through county welfare agencies.

Eligibility and Benefits To qualify for food stamps, all recipients must meet three basic criteria: net monthly incomes below the poverty line; liquid assets below \$1500 (\$3000 for households with a member over 60); work registration every six months. Need must be greater than income (after allowable deductions).

Benefits are based on the size of the family and the Thrifty Food Plan, a USDA plan tying food stamp allotments to minimum dietary standards. Thirty percent of net income is deducted from the Thrifty Food Plan amount to calculate benefit levels. Benefits are uniform across the country, maximum benefits per person per meal set at about 70¢.

Assessment The Food Stamp Program has been quite successful in achieving its goal of assuring the poor a minimum level of food consumption. As the only public assistance program significantly aiding the working poor, it helps to fill the gaps in the welfare system. Its positive features include general public acceptability, universality of coverage, and effective targetting. On the other hand, administrative costs and recipient inconveniences are high; a cash transfer program would likely achieve the program's goals at a much lower price (13).

Public Housing

The final primary component in the American welfare system is housing. Intended to provide housing for low-income families and to assist in the purchase or rental of housing, the programs include Low-Rent Public Housing, Home Ownership Assistance for Low-Income Families, the Rent-Supplement Program, Interest Reduction Payments, Lower Income Housing Assistance, and various others (1).

Administration Administration for housing programs is the responsibility of several federal departments: Housing and Urban Development, Agriculture, Indian Affairs, and Veterans Benefits. Public housing is federally financed through general revenues, special insurance funds, and other appropriations, as well as through local tax exemptions.

Eligibility and Benefits Eligibility criteria and benefit levels generally relate local housing costs to tenant income (3). Programs are means- or income-tested, except those for veterans. Among the benefits are the following: (1)

low rental charges through federal assistance to local housing authorities; insured mortgages and monthly interest subsidies to the mortgage lender on behalf of lower income families; rent supplement payments equal to the difference between fair market value rental for particular housing and a percentage of the family income; low-cost rental subsidized through low-interest mortgages; payments to owners in order to assure rentals at particular levels; insuring loans to families to buy, build, improve, or relocate homes; insured loans to farmers and associations of farmers to provide adequate housing at reasonable rents; and grants to native Americans to repair, renovate existing housing, or provide new housing. Counseling and technical assistance are sometimes available. (p. 197)

Assessment The record of public housing is mixed, with some successful projects, and others which only manage to re-create slum conditions. Naturally, it is the latter which get most of the publicity (1). The overriding problem with public housing is the lack of available housing units for eligible families; less than 10% of eligible families receive housing assistance with waiting lists of around a million families (2, 3, 12). Another major problem is that rent supplements tend to drive up the going rental rates (1). Finally, corruption has beset many of the programs (1).

Effects Of The System

Prior to the enactment in 1935 of the Social Security Act, which marked the entrance of the federal government into the social welfare field, fewer than half of the states had poverty relief programs, the private sector having had primary responsibility for poverty programs (4, 7). The depression put such tremendous stress on the resources of these private agencies that the federal government felt pressure to assume responsibility of providing assistance to the poor. The American strategy was to create a categorical system which would designate certain groups of needy for special attention. The organizing principle revolved around the reason for the disruption in the flow of income (2). Initially there were three such categorical programs - Old Age Assistance, Aid to the Blind, and Aid to Dependent Children. A fourth, Aid to the Permanently and Totally Disabled, was added in 1950. States were required to participate and had to submit a "state plan" in conformity with the act to qualify for remuneration. Many states offered General Assistance to fill in the gaps. The extant cash assistance system came about with the 1972 amendment creating SSI, which subsumed the blind, disabled, and aged programs.

The purpose of categorization is to ensure that the benefits of a program are targetted on the group thought to be in need (3). Efficient targetting helps the most needy and presumably excludes the better-off from benefitting thereby limiting costs and political risks inherent in helping the "undeserving". Categorization carries a heavy price, however: With so many different groups in need of assistance, dozens of income maintenance programs were created, each tailored to a specific problem created by a lack of income, a specific cause for lack of income, or a specific needy group (2). The result is a confused tangle of unrelated programs with gaps and overlaps in coverage, ill understood by the public, the recipient, and even the legislators and bureaucrats. The reasons that categorization has lead to such a confused and conflicting welfare system are these: (2)

- Each program has its own interest group devoted to maximizing its own income security goals, diminishing funds available for other welfare objectives;
- With the many centres of administration, programs are often designed and implemented without regard for other welfare programs which it may affect;
- Welfare programs are not a high priority in the U.S.; and
- There is little agreement on the goals that the welfare system should attempt to achieve.

The system revolves ... about a constantly shifting kaleidoscope of issues, dollars, jobs, and policies, of who is in office and who is out, of who may be hurt and who may benefit, in short, a question of raw political power. The system has built-in as well as external conflicts ... that can be summed up quite simply: the feds have the money, the states have the power, and the locals have the problems (14, p. 14)

Administration The American welfare system is both vertically decentralized - with state and local governments operating federally mandated and funded programs - and horizontally decentralized (categorized) - with different federal departments running different aspects of the system (15). This fragmented administration causes several problems:

- Frequently inconsistent between programs, and even within the same program from state to state, are benefit levels, eligibility criteria, accounting periods, benefit reduction rates, and definitions of countable income (3);
- With over 5000 government units delivering welfare, administrative duplication is excessive: increased costs and a higher incidence of error and abuse are the main consequences;
- Categorical coverage effectively precludes large parts of the poor population from benefitting including single employables and two parent families in many states. To compound the inequity, other households - no more needy - qualify for aid from several programs.
- Categorical programs increase stigma by focusing public attention on each program and its beneficiaries rather than on the system as a whole (15);
- More generous financial assistance in one state tends to encourage uneconomic migration (2);
- The cumulative effect of benefit reduction rates from various programs often means that recipients of more than one program actually lose income by working. Overlapping programs, therefore, reduce work incentives;
- States without coverage for two-parent households may be unwittingly encouraging family breakup (2, 3);

Eligibility and Benefits A poor person seeking financial aid is confronted with a bewildering array of disjointed programs. In visiting the county welfare agency, he may discover that he qualifies for food stamps or Medicaid if the local office delivers these programs, AFDC if he has children and the state supports married couples, or GA if the county offers the program. He may not even be aware of SSI or public housing since they are not generally operated locally. Qualifying for one may disqualify him for another (2). Depending on the state in which he resides he may receive \$100 per month or \$500 per month. If he finds a job paying \$300 a month, he may lose the \$500 in cash and in-kind benefits: if this job is lost, he may not requalify for several months. Upon re-establishing eligibility, he may not take the chance of working again unless a good position arises.

Table 2 shows benefits potentially available to a female-headed family of four in 1979 (16).

Assessment Thus far, the overview of the system has dealt with the problems inherent in multiprogram welfare. But despite these drawbacks, the American system is not without success. The American income maintenance system as a whole has significantly reduced the incidence of poverty (5, 17, 18). Cash transfers reduced poverty by 44% in 1978; cash and in-kind transfers have reduced poverty by 75% (5). This translates to an increase in the income share of the bottom quintile of between 5 and 6 percentage points (i.e., income inequality was reduced by 19%) (5), reducing the proportion of the population living in poverty to 6.4% (18).

Negative effects on work effort, private savings, and GNP growth have been modest (17). The system has reduced work effort by about 5% (5). The level of fraud is at about 4% (4).

Individual programs, especially Food Stamps and Medicaid, have been quite successful and relatively popular with recipients and the public. Food stamp income in particular, inversely related to combined income from all other sources, acts to reduce the inequities of the welfare system.

TABLE 2

Table . Benefits potentially available to a female-headed family of four, 1979

Earnings	AFDC ¹	Taxes		Earned Income Tax Credit	Net Cash	Food Stamps ²	Net Cash and Food Stamps	Medicaid ³
		Social Security	Income					
—	\$3,600	—	—	—	\$3,600	\$1,698	\$5,298	\$1480
\$ 1,000	3,573	\$ 61	—	98	4,610	1,466	6,076	1480
2,000	2,903	123	—	198	4,978	1,427	6,405	1480
3,000	2,233	184	—	298	5,347	1,388	6,735	1480
4,000	1,563	245	—	398	5,716	1,349	7,065	1480
5,000	893	307	—	498	6,084	1,310	7,394	1480
6,000	223	368	—	500	6,365	1,271	7,636	1480
7,000	—	429	95	378	6,854	1,098	7,952	—
8,000	—	490	235	253	7,528	858	8,386	—
9,000	—	552	394	128	8,182	618	8,800	—
10,000	—	613	546	—	8,841	378	9,219	—

¹ Assumes the state pays \$300 per month and uses the standard "\$30 and one-third" formula, and that the family has work expenses of \$50 a month.

² Assumes a \$75 standard deduction and a 20 percent work expense deduction on total earned income.

³ Based on average benefit received by Medicaid recipients times the average number of persons in AFDC households in May 1979.

Source: 16

CONCLUSION

The American welfare system is a complex mixture of largely unrelated and conflicting programs. Multiple centres of administration lead to inequities and inefficiency. Rapidly expanding caseloads and costs have caused public concern with this "welfare mess".

If the effects of social insurance are included, the income maintenance system has been quite successful in achieving its primary goal of reducing poverty in the United States. There remain millions of poor Americans, however, and the chance of the present system further reducing the incidence of poverty is slim (17). Short of a major revamping of the entire system - an unlikely event given the politics of the current system - social welfare could be substantially improved if the federal government imposed nationally uniform benefits and eligibility criteria for AFDC. Reagan is pushing for decentralization of AFDC (in return for assuming full federal responsibility of Medicaid), an offer the governors have so far refused, citing the need for uniformity (19). Decentralization would further erode equity without some sort of federal standards for which the states are pushing. In the meantime incremental changes are taking place, most often involving funding cutbacks (e.g., AFDC was cut by \$1 billion in 1981, food stamps by \$2 billion) and eligibility restrictions.

BOB POWER

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FIGURE 1

Trend of Cash Welfare Recipients

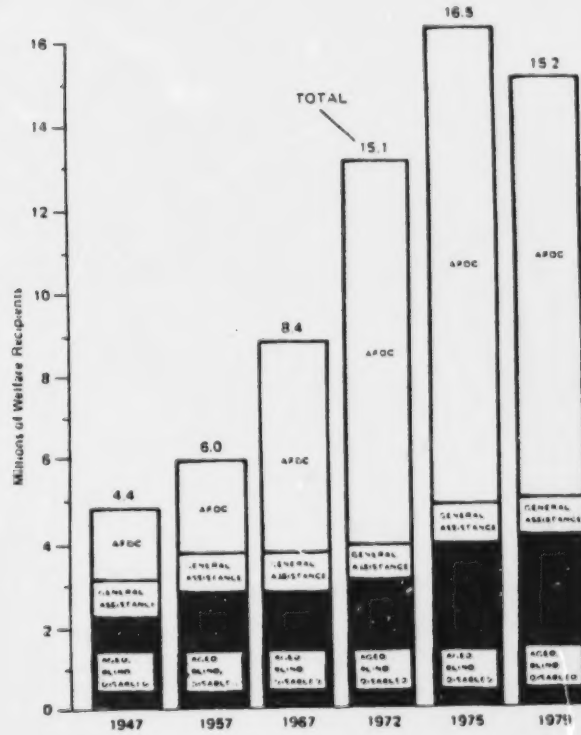
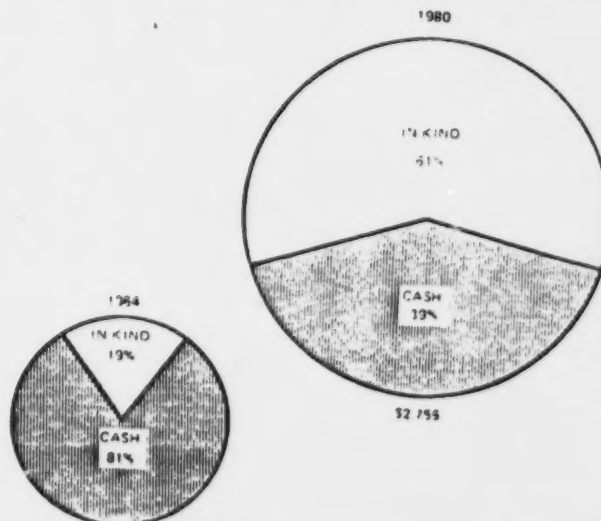


FIGURE 2

Per Capita Cash and In-Kind Aid to the Poor
(1979 dollars)



Source: 16

APPENDIX A

AMOUNTS FOR ALL BASIC NEEDS, AS DEFINED BY THE STATE IN ITS NEED STANDARD, AND AMOUNT OF PAYMENT TO A FAMILY WITH NO COUNTABLE INCOME AFTER APPLICATION OF ANY METHOD OF LIMITING PAYMENT USED BY STATE, AS OF OCTOBER 1, 1980, 1979, BY STATE

State	Part 1: Family of 2 Persons (1 Needy Adult and 1 Child)		Part 2: Family of 4 Persons (1 Needy Adult and 3 Children)	
	Column 1: State Need Standard for All Basic Needs*	Column 2: Amount of Assistance Payment to a Family With No Income*	Column 1: State Need Standard for All Basic Needs*	Column 2: Amount of Assistance Payment to a Family With No Income*
Alabama	\$144.00	\$ 89.00	\$240.00	\$148.00
Alaska	400.00	400.00	514.00	514.00
Arizona	180.00	156.00	282.00	244.00
Arkansas	193.00	133.00	273.00	188.00
California*	395.00	382.00	591.00	563.00
Colorado	229.00	229.00	351.00	351.00
Connecticut	331.00	331.00	477.00	477.00
Delaware	197.00	197.00	312.00	312.00
D.C.	311.00	225.00	481.00	349.00
Florida	150.00	150.00	230.00	230.00
Georgia	161.00	137.00	227.00	193.00
Guam	195.00	195.00	300.00	300.00
Hawaii	390.00	390.00	546.00	546.00
Idaho	298.00	224.00	421.00	316.00
Illinois	225.00	225.00	331.00	331.00
Indiana	247.00	195.00	363.00	315.00
Iowa	292.00	292.00	419.00	419.00
Kansas	265.00	265.00	365.00	365.00
Kentucky	162.00	162.00	235.00	235.00
Louisiana	289.00	110.00	494.00	188.00
Maine	307.00	207.00	522.00	352.00
Maryland	211.00	211.00	326.00	326.00
Massachusetts	314.00	314.00	445.00	445.00
Michigan	361.00	361.00	513.00	513.00
Minnesota	344.00	344.00	486.00	486.00
Mississippi	188.00	60.00	252.00	120.00
Missouri	250.00	199.00	365.00	290.00

* Effective 1/1/81 payment reduced to: \$374 for 2; \$550 for 4.

(continued)

State	Part 1: Family of 2 Persons (1 Needy Adult and 1 Child)		Part 2: Family of 4 Persons (1 Needy Adult and 3 Children)	
	Column 1: State Need Standard for All Basic Needs*	Column 2: Amount of Assistance Payment to a Family With No Income*	Column 1: State Need Standard for All Basic Needs*	Column 2: Amount of Assistance Payment to a Family With No Income*
Montana	\$193.00	\$193.00	\$331.00	\$331.00
Nebraska	270.00	270.00	400.00	400.00
Nevada	229.00	211.00	341.00	314.00
New Hampshire	292.00	292.00	392.00	392.00
New Jersey	273.00	273.00	414.00	414.00
New Mexico	178.00	178.00	267.00	267.00
New York	333.00	333.00	476.00	476.00
North Carolina	167.00	167.00	210.00	210.00
North Dakota	270.00	270.00	408.00	408.00
Ohio	284.00	216.00	431.00	327.00
Oklahoma	218.00	218.00	349.00	349.00
Oregon	281.00	281.00	376.00	376.00
Pennsylvania	273.00	273.00	395.00	395.00
Puerto Rico	132.00	75.00	228.00	130.00
Rhode Island	276.00	276.00	389.00	389.00
South Carolina	144.00	99.00	229.00	158.00
South Dakota	280.00	280.00	361.00	361.00
Tennessee	142.00	97.00	217.00	148.00
Texas	115.00	86.00	187.00	140.00
Utah	371.00	269.00	572.00	415.00
Vermont	558.00	410.00	753.00	553.00
Virgin Islands	154.00	154.00	263.00	263.00
Virginia	201.00	181.00	314.00	283.00
Washington	339.00	339.00	483.00	483.00
West Virginia	219.00	164.00	332.00	249.00
Wisconsin	443.00	377.00	622.00	529.00
Wyoming	280.00	280.00	340.00	340.00

*Amount is rounded to the next highest dollar.

METHODS USED BY STATES TO DETERMINE THE AMOUNT OF THE ASSISTANCE PAYMENT IN AID TO FAMILIES WITH DEPENDENT CHILDREN, BY STATE, AS SEPTEMBER 30, 1980

I. State pays the amount of its need standard' 27 States

(Income is subtracted from the amount of the need standard; payment is the deficit.)

Alaska	Montana
Colorado	New Hampshire
Connecticut	New Jersey
Delaware	New Mexico
Florida	New York
Guam	North Carolina
Hawaii	North Dakota
Illinois	Oregon
Iowa	Pennsylvania
Kansas	Rhode Island
Maryland	South Dakota
Massachusetts	Virgin Islands
Michigan	Wyoming
Minnesota	

II. State pays amount of its need standard for a smaller size family² but limits payments to larger families 3 States

(Income is subtracted from the need standard; payment is the deficit, or for larger families, the maximum, on the money payment by family size, whichever is less.)

Kentucky —A family of 1 through 7 persons receives the amount of need standard up to the \$345 family maximum. A family of 8 or more is limited to \$345.

Oklahoma —Administrative maximums for families up to 9 persons in number equal the standard of need for each size family; but a family with more persons receives the same amount as a family of 9 persons—\$629.

Washington —A family of 1 to 7 persons receives the amount equal to the standard of need by family size up to \$694; families with 7 or more persons receive payments subject to maximums set for each size family.

III. State does not pay the amount of its need standard 24 States

Limitations on payments are made by the following methods:

A. Income is subtracted from the need standard in 5 States, but—

1. Payment is the deficit or the maximum by family size¹, whichever is less . 1 State
Nebraska (\$400.)
2. Payment is a percent² of the deficit 2 States
Puerto Rico (57%)
South Carolina (69%)
3. Payment is a percent of the deficit, or the maximum by family size³,
whichever is less 1 State
Mississippi (75%) or (\$120)

B. A percentage reduction is applied to the need standard in 21 States; income is subtracted from the reduced standard, and—

1. Payment is the deficit 14 States
Alabama (61.5%) Louisiana (38%) Utah (72.5%)
Arizona (86.5%) Maine (67.5%) Vermont (73.4%)
Arkansas (69%) Nevada (92%) Virginia (90%)
D.C. (72.5%) Ohio (75.9%) Wisconsin (85%)
Georgia (85%)
Idaho (75%)
2. Payment is the deficit or the maximum by family size³, whichever is less . 4 States
Indiana (90%) or (\$315)
Missouri (79.55%) or (\$402)
Tennessee (68%) or (\$220)⁴
Texas (75%) or (\$300)⁴

C. A percentage reduction is applied to the need standard; income is subtracted from the reduced standard or from the family maximum⁵ on the money payment, whichever is less; and payment is the deficit 1 State
West Virginia (75%) or (\$254)

D. Income is subtracted from a maximum on the money payment by family size³; payment is the deficit 1 State
California (\$563)

¹Each State sets its own need standard, both in terms of the items of subsistence recognized and in terms of the amounts of money allowed to cover them. The standard is always related to the number of persons in the assistance unit. This table assumes an assistance unit of 4 persons (a needy caretaker relative and 3 children).

²The word "family" is used loosely to mean the persons comprising an assistance unit as defined by the State.

³A separate maximum is set on the money payments for each size family by some States. It represents the largest amount that the State agency will pay to a family of a specified size.

⁴The percentage figure in parentheses is the proportion of the amount to which it is applied which the State pays as the monthly payment to the assistance unit.

⁵A single amount of money is set by State law or by administrative action as the largest amount that the State agency will pay to a family, regardless of the number of persons in the family. A family may receive less than this amount, depending upon the standard of need for the size family and the State's method of determining the amount of payment; but no family may receive more than this amount.

THE REFORM OF INCOME MAINTENANCE IN
CANADA AND THE U.S. SINCE 1970

Saskatchewan Social Services
Planning & Evaluation Branch
July, 1982

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SUMMARY

This paper reviews the major attempts at fundamental reform of the income maintenance systems of Canada and the United States since 1970. Critical issues in welfare reform are outlined: adequacy, equity, efficiency, work incentives, work requirements, stigma, costs, among others. The Family Income Security Plan and the Social Security Review, the Canadian reform efforts, are reported. American programs, the Family Assistance Plan and Carter's Program for Better Jobs and Income, are then examined. The collapse of these attempts foretells of little hope for fundamental reform in the near future.

THE REFORM OF INCOME MAINTENANCE IN CANADA AND THE UNITED STATES SINCE 1970

Since 1970, both Canada and the United States have undergone elaborate and extensive debates aimed at comprehensive reform of their public income maintenance programs. Two proposals received considerable attention: a national minimum guaranteed income and coverage of the working poor. These efforts at major restructuring eventually collapsed in both countries, but not without some fairly substantial incremental gains (1).

Interest in reform rises when program expenditures are perceived as getting out of control. The two nations experienced rapidly rising social services expenditures during the sixties and there was growing public backlash against these expenditures (1). U.S. concern about a welfare crisis was caused by extraordinary growth in the Aid to Families with Dependent Children (AFDC) program between 1967 and 1971. In Canada, the number of social assistance recipients under the Canada Assistance Plan (CAP) grew even faster during the late sixties, though the Canadian public seemed less concerned than the American public about a welfare crisis. In total, means-tested and needs-tested assistance tripled in both countries as a proportion of GNP from 1960 to 1974 (1).

From this context came the impetus to reform the system. In the U.S., proposals were advanced as a means of cleaning up the "welfare mess", while in Canada the initiatives were introduced as improvements required to meet changing needs in the drive to reduce poverty (1). Ironically, although the proposals answered many of the concerns with the current systems, both governments proposed schemes which would have extended benefits to new groups in the form of a guaranteed income.

The purpose of this paper is to review the attempts at major welfare reform that ensued in Canada and the United States. The first section outlines the critical issues policy-makers must consider before revamping welfare. Next is a chronological survey of reform efforts during the seventies. Finally, the paper looks at the present situation and prospects for future change.

ISSUES IN WELFARE REFORM

The following interrelated and often conflicting policy issues are involved in assessing reform proposals or evaluating current income - maintenance programs:

- a) Adequacy An income maintenance program should ensure adequate minimum income. The concept of adequacy must be considered in relation to an absolute level of minimum income (i.e., poverty line) and the ever increasing cost of living (2).
- b) Equity There are two kinds of equity. For horizontal equity, families of equal size with the same financial needs should receive equivalent assistance payments. Vertical equity requires that families of the same size having a greater economic deprivation should receive larger assistance payments (2).
- c) Economic Efficiency For economic efficiency, assistance payments must be concentrated on a target population. Only when every dollar of public assistance goes to the poor is there 100% efficiency. In most income maintenance programs, however, efficiency is entangled with adequacy or work incentives. To preserve work incentives, the benefits withdrawal rate must be under 100%. Therefore, work incentives compromise either adequacy or economic efficiency (2).
- d) Work Incentives Nearly every income assistance program includes work incentives because governments and the public believe that recipients need encouragement to work. Although most of the literature indicates that the only encouragement necessary is an adequate job (3 - 5), certain aspects of the welfare system may create disincentives to work. At issue here are marginal tax rates and "in - kind" benefits:
 - (i) The effects of tax-back rates have been subject to intensive study for the past 15 years. Results from the Work Incentive Program (WIN) and negative income tax experiments (NIT) show that the effect of tax rates on work effort is likely to be minimal (3, 6, 7), but for some observers any decline in work effort is too much (8). Another consideration is that clients who benefit from more than one transfer program, may have tax rates "stacked" - negatively affecting work incentives (9). The fundamental dilemma with lower tax rates

is that the cost of the program increased substantially as benefits flow to higher income levels (1, 6). To contain costs, smaller guarantees (basic grants) are necessary. Thus, adequate benefits, work incentives, and program costs are competing goals and must at some point be compromised. Achieving one involves some sacrifices in the others.

(ii) Leaving social assistance may involve transition costs such as the loss of in-kind benefits and problems with re-establishing eligibility should the client be unsuccessful after leaving assistance (6). In Canada recipients have access to health benefits not covered under Medicare, legal aid, housing assistance, social services, and a wide range of special needs provisions. In-kind benefits in the U.S. are even more generous: Medicaid, food stamps, housing assistance, legal aid, and social services. With the loss of in-kind benefits, a recipient may experience a net loss in real income if employment is found (1).

e) Work Requirements In view of the difficulty of reconciling work incentives with adequacy and cost, a more direct approach often taken is work requirements. Various studies show that most recipients want to work when a job is available (3 - 5, 10), but political realities dictate that work requirements be included in social assistance programs. In a 1976 survey, 86% of Canadians polled agreed that "an employable man who is receiving welfare assistance should be required to undertake any available work" (1). Unfortunately, designing an effective work requirement is difficult. The main problem is a lack of jobs with unemployment at record levels. Even in a good labor market many able-bodied recipients face real barriers to employment such as little education, and lack of skill and training. Thus, a work requirement must involve government provision of jobs (or money to create jobs), training slots, and employment support services such as day care. If funds are not available work requirements must be limited to a requirement to actively search for work and acceptance of any job available.

Work requirements have been more harshly enforced in the United States than in Canada. Some communities in the United States force a recipient to do specified work in exchange for receiving benefits, a system called welfare or work relief. Benefits are designated as welfare (and as such may be below minimum wage) and the recipient is seen to be working off his debt to society (1).

f) Stigma The public generally thinks poorly of welfare recipients. Despite documentation to the contrary, many people believe that recipients are lazy and "welfare cheating" is widespread (11). The general belief is that many people on assistance do not need it and should be working (1) - this despite a well-known shortage of jobs. This negative attitude also affects the programs themselves which are seen as inefficient and too generous (1, 11). As well, the needs-test itself imposes social stigma (2).

g) Antipoverty Effectiveness Alleviating poverty and limiting expenditures are conflicting goals. High guarantees alleviate poverty for non-workers and low tax rates reduce poverty for workers but both increase costs and may affect work incentives. Hence the neglect of poverty and the emphasis on work incentives and controlling welfare costs in the most recent attempts at reform (12).

Three decades of new and expanded programs have done little to alter income distribution in either Canada or the U.S., though the absolute level of poverty has fallen (1). In both countries, the richest fifth received about 40% of total income, while the poorest quintile received only about 5% of income from 1951 to 1979 (1, 13). Although transfer schemes have failed to improve the skewed income distribution, programs such as CAP and AFDC have probably kept the distribution from shifting further in favor of the rich.

h) Single Parents Also important in any discussion of welfare reform is the issue of single parents. In May 1982, nearly one-third of the Saskatchewan Assistance Plan (SAP) caseload were single parents (96.5% female). The problem of welfare causing family break-up is much more acute in the U.S. where AFDC caters mainly to single mothers. This provided one of the strongest arguments for NIT. Unfortunately, the NIT experiments concluded that a guaranteed income lead to higher marital instability (14), providing financial ability to end an unsatisfactory marriage (8). The consequences of any reform proposal on marital stability must be closely examined.

i) Program Costs The downfall of many reform proposals has been the prohibitive costs. As stated above, a program to bring assistance recipients out of poverty

would necessitate high guarantee levels, low tax rates, or some combination of both - a very costly proposition. Any increase in the break-even point not only causes more total benefits to be paid per beneficiary but also increases the number of beneficiaries. To bring poor families over the poverty line means that benefits will also be paid to non-poor families.*

j) Incentive to Save No income maintenance program should discourage efforts to save, but needs-tested programs tend to do just that (2).

k) Administrative Efficiency Assistance programs should strive for efficiency and simplicity so that expenses are limited, and the programs are understandable to perspective clients.

WELFARE REFORM IN CANADA

Federal-provincial relations dominated Canadian politics throughout the 1960's and 1970's. As such, the impetus for reform in the social policy area came as much from jurisdictional disputes as from a concern of wastefulness of social programs and a feeling that CAP was not the answer to poverty (1, 15). In this atmosphere, the federal government proposed increased aid to the poor in its 1970 white paper, Income Security for Canadians. The paper proposed that the universal Family and Youth Allowances be converted into a selective guaranteed income program, the Family Income Security Plan (FISP). Under FISP, 70% of families would continue to receive an allowance, while over half would receive a higher benefit than before. Families with incomes over \$10,000 would no longer receive an allowance. This loss of universality plus FISP's avowed intention to make provincial social assistance "increasingly less important" ensured the program would never eventuate (1). In the meantime, though, Parliament passed measures that increased Old Age Security (OAS) and the Guaranteed Income Supplement (GIS), as well as liberalizing benefits and

* Any program with a break-even point above the poverty line will pay the non-poor. When the work incentive factor is added to the equation, providing a guarantee at or above the poverty line is unacceptable because of the cost, and minimum wage earners would make less than welfare beneficiaries. Thus, the guarantee must be below the poverty line and the unemployable or unemployed remain poor.

eligibility under Unemployment Insurance (UI).

All the while Quebec was busy formulating proposals of its own aimed at obtaining greater control over social policy in the province. The proposals contained in the Castonguay - Nepveu report envisioned a three-layered integrated structure consisting of social insurance, general social allowances, and family allowances (1). Social assistance would be replaced by social allowances and would have separate benefit schedules for employables and unemployables. Existing federal programs - OAS, GIS, Family Allowances, and CAP - would all end.

THE SOCIAL SECURITY REVIEW

The 1972 federal election saw the Liberals return with a minority government. To gain the support of the New Democratic Party, the government pledged to expand welfare (1, 15). Another incentive for reforming welfare in the early seventies was the collapse, in the summer of 1971, of a major attempt to patriate the Canadian Constitution (15). Quebec claimed that it would not support the "Victoria Charter" because it failed to provide a jurisdictional settlement in the field of social policy. Finally, Ottawa pushed for a review of welfare in order to regain the initiative in social policy which had been taken by Quebec's Castonguay-Nepveu report.

Thus, in 1973, the federal and provincial governments again embarked on welfare reform. Entitled, A Working Paper on Social Security in Canada, the federal proposals were popularly known as the "Orange Paper", and the policy review it initiated was called the Social Security Review.

The Orange Paper states the objectives of the reformers (16):

"For people who are of working age, and are able to work, there would be employment at at least a living wage. To ensure that a living wage is paid, the state would legislate a minimum wage. If the minimum wage were sufficient to support small family unit only, income supplements would be available to meet the costs of child-raising in larger families whose incomes fell at or near the minimum wage.

To meet the contingencies of life - temporary unemployment, sickness, injury, and disability - and to provide for retirement, everyone would save a portion of his or her income, and contribute these savings to an insurance plan. The basic insurance would be provided by a public or social insurance plan, and insurance above these basic levels would be provided for privately. To meet large and unforeseen expenditures, such as medical and hospital bills, special or universal hospital and medical insurance plans would be established by the state.

If someone somehow failed to receive an adequate "income through employment" (with supplementation of family income for low income earners), or "income from savings" (social insurance), additional income support measures would be available. These would be required when employment was not available for a person, or when he/she was not suited for the jobs which were available. Such measures would be required, too, when a person had been unable by reason of his/her income to save for retirement or for the contingencies of life. These supplementary income support measures would be associated with the social and employment services needed to assist in returning to employment those who were able to do so - services such as training, placement, rehabilitation and counselling. They would be accompanied, too, by any special or institutional services required, such as nursing homes, or child care facilities."

The Orange Paper listed the deficiencies in the Canadian social security system which initiated the review:

- a) The system was built upon the assumption of full employment;
- b) Income from employment was frequently inadequate, yet employed people might not qualify for either UI or social assistance;
- c) There was little incentive to get off social assistance once one was on it. Assistance payments for families with children were frequently higher than minimum wage. Add to this in-kind benefits, and many families would receive less income working;

- d) Benefit levels varied widely from province to province;
- e) Social insurance plans were inadequate;
- f) The various elements of the income security system lacked coordination;
- g) The stigma associated with social assistance and the needs-test could be lessened with an income-test; and
- h) The perceived abuses of the system by clients (though not widespread) should be minimized.

The proposed solutions to these problems were embodied in 5 "strategies" encompassing 14 "propositions": a) The Employment Strategy was to provide people with jobs "with income through employment rather than income through social assistance". To achieve this, 3 propositions were forwarded: (i) remove any disincentives which discourage recipients from becoming self-sufficient, and any incentives which encourage a shift from employment to social assistance, (ii) help recipients find employment, (iii) consider establishing a community employment program. b) The Social-Insurance Strategy proposed that (iv) governments continue social insurance plans. c) The Income Maintenance Strategy was the main part of the review with 5 propositions: (v) family allowance should be increased substantially, be made taxable, reviewed subject to inflation, and varied by children if a province wished, (vi) incomes of the working poor should be supplemented under a single general income supplementation plan with built-in work incentives, (vii) a guaranteed income should be available to those unable or not expected to work - the retired or disabled, single parent families, and others not currently employable. This income would be greater than the working poor supplement, (viii) CAS/GIS should be continued, (ix) a "last resort" program should be established for special situations. d) The Personal Social Services Strategy proposed that: (x) social and employment services such as training, counselling, and child care services be extended and improved, (xi) the costs of special services be covered by government where the individual has the need. e) The Federal-Provincial Relations Strategy sought to set aside the jurisdictional issue at

least at the outset by conceding that (xii) the provinces should choose the levels of income guarantees and supplementation subject to a set of minimum national standards, and (xiii) national minimum incomes should be set by Parliament.

OUTCOME OF THE SOCIAL SECURITY REVIEW

Three federal-provincial working parties were established for the review (15). One dealt with the employment strategy, one with personal social services, and the third with income maintenance and social insurance. The employment strategy disappeared by mid 1978. Fifty million dollars was approved for the Community Employment Strategy but few projects got beyond planning stage. The working party on social services advanced a shared cost proposal and a block funding scheme to parallel health insurance funding, both of which died in Parliament for austerity reasons. The third working party moved forward quickly to improve family allowance and pensions. The cost of these improvements plus recent increases in UI benefits left little money to work with for the main proposals in the review. Six basic options were outlined by the federal government in late 1974. Three based on the number of children (including tax credits) were dropped because they were poorly targeted. A single-tier system similar to FAP was dismissed due to high costs. The remaining proposals were two-tiered systems (support and supplementation) differing in whether the supplementation tier should be delivered by the federal government through refundable tax credits or by the provinces via transfer payments (support would remain the responsibility of the provinces). Federal-provincial disagreements eventually doomed both proposals by delaying reforms until they had no chance of passing due to their high cost (\$2 billion) in a time of fiscal restraint. Ottawa eventually acquiesced to provincial administration of the supplementation program, and cut proposed costs considerably by restricting eligibility. Ontario rejected the revised program - enough to finish it. Instead, the federal government implemented a refundable Child Tax Credit in 1978 delivered through the federal tax system (while reducing family allowance payments). In addition, UI eligibility regulations were tightened up and GIS increased.

WELFARE REFORM IN THE U.S.

President Nixon sprang his proposal for a Family Assistance Plan (FAP) on a surprised country in August, 1969. He attempted to sell the proposals as the answer to the "welfare mess" (1). Congress began to debate the measure almost immediately.

Under FAP all families with children would be eligible for a federally financed guarantee to be supplemented with food stamps and by additional state benefits in most states. Work incentives allowed the first \$60.00 in monthly earnings to be exempted, with a subsequent 50% reduction rate. The plan's work requirement stipulated that employable family heads must accept suitable work or training or lose \$300.00 annually from the basic grant. Unemployable recipients were not subjected to this penalty.

FAP was attractive to states and localities because they would have to pay no more than 90% of previous AFDC expenditures. But they were displeased with the requirement that they supplement the federal payments up to existing AFDC levels (1). This lessened the enthusiasm for FAP of the inter-governmental groups, its most powerful potential allies (1).

The original bill contained several notches (e.g., Medicaid and Food Stamps) that would have inhibited moving off welfare. A revised bill removed the notches, replacing Medicaid with a Family Health Insurance Plan with premiums tailored to income, and a more gradual reduction of food stamp benefits. So that the cost of FAP would not increase, these changes were achieved by increasing tax back rates at lower levels of income - raising the problem of work disincentives. The penalty for refusing to work was raised to \$500.00. An earlier promise that no AFDC recipient would suffer lower benefits under FAP was dropped, antagonizing the National Welfare Rights Organization (NWRO). NWRO exerted strong pressure on Congress to defeat the bill. Efforts to work out a compromise failed and FAP died in 1970. Nixon's major Food Stamp reforms did pass though, tripling the number of beneficiaries.

Nixon tried to revive FAP in 1971 making several changes designed to appease opponents. Designated "HRL", the new bill reduced eligibility for food stamps, increased the basic welfare payment, federalized programs for the aged, blind and disabled, dropped the condition for supplemental state payments, tightened work requirements including designating employable mothers of children as young as three, raised the penalty for refusing work to \$800.00, and curtailed the right to appeal by eliminating the right to free legal counsel and foreclosing judicial review of appeal boards (1). The bill also separated unemployable and employable families into different programs (though benefits would remain the same), with the former receiving benefits under FAP through the Department of Health, Education and Welfare (HEW), and the latter placed in a program called Opportunities for Families administered by the Department of Labor (1).

This bill did not pass for several reasons. First, it cost \$6.1 billion more than the original FAP proposal. Second, welfare caseloads were no longer increasing, lessening the urgency for change. Third, the most attractive features of HRL were passed piecemeal including tightened work requirements under WIN (Talmadge amendment), and establishing a national income floor for the aged, blind, and disabled - the Supplemental Security Income (SSI) program. Finally, Nixon lost interest in welfare-reform.

After the defeat of HRL in 1972, welfare reform efforts did not surface again in earnest until 1977. HEW advanced a few proposals during this time including a major reorganization of HEW's 300 programs ("Mega-Proposal"), an Income Supplement Program (essentially a HIT program which sought to "cash out" food stamps), and a refundable child tax credit program. Only the tax credit program became law. During this interim period caseloads surged, the food stamp program had been massively enlarged, and Medicaid had grown substantially (8).

PROGRAM FOR BETTER JOBS AND INCOME

President Carter proposed the Program for Better Jobs and Income (PBJI) in August 1977. Among the main proposals: (1, 12, 17)

a replacement of AFDC and SSI with a national minimum federal cash payment;

- b) food stamps would be abolished, although Medicaid and housing subsidies would remain;
- c) benefits would be a combination of cash from HEW and expanded earned income tax credit from the Treasury;
- d) beneficiaries would be divided according to their employability with unemployables receiving income "support", and employables receiving a lower income "supplementation". Those in the support group would have their benefits reduced by 50% starting with the first dollar of earnings. Recipients being supplemented were allowed a \$3,800.00 exemption with a tax of 50% thereafter. Mothers with no children under 7 were expected to work;
- e) employables would receive no benefits during an initial eight-week job search, after which the person would be moved to the support tier if no job was found. To minimize this possibility, Carter proposed the provision of 1.4 million public service jobs to be offered only after 5 weeks of searching for a private-sector job.
- f) eliminate fraud; and
- g) make welfare simpler and more comprehensible.

Compared with the current system, large gains were claimed for PBJI: (a) Welfare would have been integrated with earnings and both coupled with the tax system; (b) consolidation would have streamlined administration; (d) family stability would have been enhanced by allowing married couples with children to benefit in the same manner and to the same extent as single-parent families; (e) the relatively high national minimum payment would have reduced incentives for migration from low- to high-benefit states; (f) states and localities would have received fiscal relief. (12) p. 253

Carter first insisted that the reforms must cost no more than the existing welfare system. Had he held to this principle most of the reforms could not have been implemented. He relented, but costs of the program were eventually estimated at \$20 billion, a major reason for the failure of the initial proposals (11).

Criticisms of the plan emanated from several sectors. Liberals opposed the low benefit levels for the support tier and the inadequacy of the jobs to be created, conservatives opposed the massive cost, academics charged that there was no attempt to permanently correct the overall economic problems of unemployment (16), and others attacked the program's distinction between employables and unemployables as an outdated Poor-Law separation into deserving and undeserving poor (12).

The bill was approved by a special Welfare Reform subcommittee in 1978, but rejected by the full House of Representatives. Various efforts to achieve a compromise failed - mainly due to cost, an impending election, and a growing public welfare backlash (1) - and PBJI died. As Nixon did with FAP, Carter then proposed a more modest \$6 billion version tailored to meet the objections of key Congressional members. Although there were no major changes regarding coverage and benefit levels (a national minimum income benefit equal to two-thirds of the poverty line was proposed), the original recommendations aimed at reducing work disincentives were scaled back. Specifically, the tax-back rate would remain at 67% rather than lowered to 50% (6). Other changes included extending welfare coverage to two-parent families with children, reducing the number of public service jobs to be created to 400,000, retaining food stamps, and offering less fiscal relief to the states and localities.

Though the reforms were designed to conform with the more conservative mood of the country, they still proved unacceptable. The latest attempt at reform succumbed to budget cutting in 1980 (19).

REFORM IN THE EIGHTIES

Every major reform effort in both countries during the 1970's collapsed. In their aftermath it is apparent that these proposals did lead to fairly substantial accomplishments in the social security field, however. Past "reforms" have significantly liberalized eligibility rules, raised benefits, extended coverage and created new programs (20). For example, pension plans were improved, refundable child tax credits were established, and in the U.S., SSI was implemented and food stamps were made more accessible and generous.

Major reforms failed in the two nations for different reasons (1). "Canadian policymakers achieved basic agreement on the principles of an expanded welfare system but disagreed on questions of financing and jurisdiction. U.S. policymakers disagreed on the very principles of reform" (p. xv).

Welfare reform during the seventies indicates the difficult road ahead for major restructuring of the system. In both countries the public's suspicion of welfare programs is stronger than ever and policymakers are beginning to respond to it with unprecedented new restrictions (1, 7). So far, U.S. leaders have been more willing than their Canadian counterparts to curtail existing welfare programs. While certain states have instituted workfare schemes or allow benefits to fall below inflation, several provinces have increased benefits faster than inflation. With the Canadian economy growing ever worse, it is unlikely that this will continue, however. The most recent efforts at reform reflect the wave of conservatism. Many have an element of workfare combined with limited job creation (19). One example was the Work Equity Project (WEP) in Minnesota which required recipients to accept jobs in Community Work Projects if other suitable employment could not be found. There is no final word on the success of WEP or similar programs as yet (7).

RECENT CHANGES UNDER REAGAN

Reagan's shift in national priorities toward increased defense spending, decentralization, and a reduced deficit has affected human service programs (21). To reduce the deficit, Congress passed the Omnibus Budget Reconciliation Bill in July 1981. Effective October 1981, it contained several cost cutting eligibility restrictions for AFDC. The expected result was rendering 500,000 families (22% of the caseload) ineligible and a reduction in benefits for another 300,000 families (7).

Work incentives must now include a \$75.00 flat monthly rate for work expenses, a child-care exemption of up to \$160.00/month/child, \$30.00 exemption, and a 33% exemption after the \$30.00. This 30 and 1/3 exemption may be applied for only 4 months while on assistance and cannot be repeated until he/she is off assistance for 12 months (7).

New work requirements include permission for states to establish a "Community

Work Experience Program" (CWEP). A recipient is required to work in these public service jobs a specified number of hours equal to his AFDC grant divided by the minimum wage. CWEP is essentially workfare which any state may adopt (7).

The new law also allows states to establish "Work Supplementation Programs" which are job subsidization programs. Included are jobs in government, nonprofit agencies, and other agencies offering day care services. Accepting jobs is optional. The federal government will provide most of the funding, "but states will be permitted to supplement such funds with money they save by lowering the standard of need throughout the state, instituting different needs standards in different parts of the state, varying needs standards for different categories of recipients, adjusting benefit levels to take into account benefits from other programs, and reducing or eliminating the earned income exemption" (7) p.224. Obviously, states will have substantial leeway in terms of choosing programs, and in the method of operation.

Aside from changes to AFDC, the poor have had to face more bad news:

a) Changes were made to the Food Stamp program resulting in one million people losing all benefits from the program; b) The effect of an economy in recession resulted in 2 million more Americans living under the poverty line in 1981 than in 1980; c) A bill before Congress at present to make a balanced budget law in the U.S. by 1985 may foreshadow even harsher times ahead for the poor.

PRESENT CONDITIONS IN CANADA

The Canadian economy is performing even worse than the American economy. The number of Canadians receiving benefits from social assistance has increased substantially since the third quarter of 1981. There have been no major attempts to reform the system in Canada since 1978 but certain provinces such as British Columbia have set up separate benefit schedules for employables. More restrictive policies toward recipients may be expected in the future. Certainly, expansive reforms like those forwarded in the past 25 years seem unthinkable in today's climate.

CONCLUSION

In the 1980's the theme for social welfare may be doing more for less. A one-step comprehensive reform of welfare is very unlikely. Future reform will continue to be incremental and may be in the direction of cutting back benefits, restricting eligibility, or shift toward prevention of dependency.

Presumably the need for reform still exists since most of the problems the major reform proposals addressed in the seventies continue. An increasing number of writers are beginning to question the need for major reform though, arguing that the poverty problem has been overstated (8, 22, 23). Rather than considering major reform, dealing with current problems may be better viewed as a continuing process of incremental improvements - at least until economic and social conditions make fundamental reform thinkable again.

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WORK INCENTIVES IN SOCIAL ASSISTANCE PROGRAMS

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Work Incentives in Social Assistance Programs

The issue of work incentives is one of the most widely debated and ambiguous within the social welfare field. Virtually every proposal for welfare reform in the last 15 years has had to confront the dilemma of how to provide financial support for those in need without compromising the incentive to work.

Work incentives in social assistance plans include programs or program features intended to influence the behavior of clients away from financial dependency and toward employment. The principle is that work should always be more financially rewarding than welfare so that work effort is maintained despite the transfer payment. Limiting the size of welfare caseloads is the fundamental purpose.

Welfare programs employ three basic strategies to induce employable recipients to work. The first aims to enhance recipient employability by providing: a) opportunities for vocational training and educational upgrading; b) job placement and employment counselling services; and c) day care and transportation subsidies. The second entails program adjustments to make work more financially rewarding than welfare; a) income exemptions; b) earnings reduction rates; and c) work expenses allowance. Third, most welfare plans incorporate a work requirement as a condition of eligibility.

This paper reviews the issue of work incentives, commenting on the perceived need for incentives, and examining the effect of income maintenance payments on work incentives.

II. The Need for Work Incentives

Governments and the public believe that welfare recipients need encouragement to work. There is a widespread conception that assistance recipients do not share the general work ethic; since they are too lazy to work they themselves are responsible for their plight. This notion is the basis for work incentives.

Largely in response to this public perception, several studies on the work ethic of the poor have been published. The consensus is that the attitudes of the poor towards work do not differ from

those of anyone else (1,2). Like others, assistance recipients are highly motivated to work and consider it to be important to self-respect and self-development (2-5). Lending empirical support to these conclusions is the research into the work history of welfare recipients. These studies agree that work and welfare are not mutually exclusive (1,6). Many employable recipients revert between work and welfare, relying on welfare between jobs (1,7,8).

From the findings on work ethic and the work-welfare mix it is tempting to conclude that work incentives are unnecessary. Assuming available employment, most recipients would choose work over welfare for economic, social, and personal reasons. Such a conclusion, however, neglects important elements of the decision to work which involve willingness to accept welfare, the costs of leaving welfare, and public concern with assisting employables.

Acceptability of Welfare

A strong work ethic does not ensure employment. The working poor often have low wage, low skill jobs with few opportunities and a high likelihood of layoffs. Confined to this peripheral sector of the labor market, these people have little possibility of moving away from ultimate dependence on welfare (1,8). They develop attitudes of resignation, failure, and hopelessness, and become more accepting of welfare though the work ethic remains intact (2). Due to a stronger disposition to accept welfare, recipients are apt to pass up a normal low wage job and place a high priority on a well paid job (2). Wanting a well paid job, an aspiration shared by the middle class, is unfortunately beyond the reach of most recipients who are normally characterized by few skills and low educational achievement. Work incentives may be necessary to induce these clients to accept any available low wage work.

Costs of Leaving Welfare

There are two types of work disincentives: receipt of income without work, and the loss of benefits caused by work. The former is dealt with at length in the following section; the latter, which has received much less attention in the literature, will be addressed here.

Leaving social assistance may involve transition costs such as the loss of in-kind benefits, and problems with re-establishing

eligibility should the client be unsuccessful after leaving assistance (9). In Canada, recipients have access to health benefits not covered under Medicare, legal aid, housing assistance, social services, and a wide range of special needs provisions. In-kind benefits in the United States are even more generous: Medicaid, food stamps, housing assistance, legal aid, and social services. With the loss of these benefits, a recipient may experience a net loss in income if employment is found (10). This phenomenon is known as a "notch". A notch occurs when a small increase in income triggers a steep drop in benefits as recipients lose eligibility for certain programs. Fear of losing all Medicaid benefits may, for example, prevent a welfare client from accepting available work since Medicaid benefits are cut off at a certain level of income.

If the person is unsuccessful at leaving welfare and is forced to re-apply for benefits, he/she may have to endure a waiting period for resumption of benefits, or for various reasons may be deemed ineligible for further benefit. Many recipients may be unwilling to risk interruption in the flow of income and refuse to search for work. Unless changes are made to welfare programs to reduce the costs of leaving assistance, work incentives may be required to prevent a reduced work effort by clients.

Public Concern with Assisting Employables

Given the public's predisposition to link poverty to work effort, any assistance programs which exclude work incentives will find little support. Political realities thus dictate that work incentives of some form be included in income maintenance programs.

Summary

The only incentive most people need to work is a good job. Without available jobs work incentives are useless. When jobs are available, however, it appears that welfare clients may need the extra encouragement work incentives provide, since the primary motivators to work - money, security, and fringe benefits (11) - generally are not found in peripheral jobs. The alternative of no work incentives would not be supported by the public, and might eventually contribute to a general decline in the work ethic (3).

Thus, it is concluded that work incentives are necessary. Why not then simply maximize work incentives in welfare programs? Because work incentives in the form of earnings exemptions (including tax rates under 100% on outside income) involve a trade-off between program expenditures and adequacy of benefits. To maximize work incentives, the basic benefit must be low and the exemption generous. This is inequitable for those who cannot work. Raising basic benefits increases costs but lowers work incentives. Increasing exemptions raises costs and makes some non-needy people eligible for assistance.

Finding the optimal combination of benefit level and exemption rate has proven elusive, however, in spite of extensive research on the matter.

III. Effect of Income Maintenance Payments on Work Incentives

The traditional view of the work incentives issue focuses mainly on the effects that high tax rates and benefit levels may have on decisions about work and welfare (9). This section examines this view by first explaining the economic theory behind it, and then proceeding to review empirical evidence on the effectiveness of work incentives upon work effort.

A. Economic Theory of Effect of Work Incentives

"Static" economic theory predicts that, since income maintenance programs raise income and reduce benefits by some fraction of non-welfare income, it is expected that recipients would work less than they otherwise would (12). It is assumed that people desire leisure. Leisure is seen as a commodity to be purchased like any other desired goal. As income increases, more money is available to spend on all goods, including leisure. Thus, it is expected that as income rises, more time would be allocated to leisure and less to work - i.e. an increase in income encourages less work effort. This inverse relationship between income and work effort is commonly referred to as the "income effect".

Income maintenance programs also affect the price of leisure through the tax rate applied to earnings. The price of leisure is equal to the value of foregone earnings. As the wage rate rises, leisure

becomes more expensive. An income maintenance scheme reduces the price of leisure by the amount of the tax rate. The higher the tax rate, the more leisure is substituted for work, a relationship known as the "substitution effect".

Thus, the two major components of an income support program - the guarantee (maximum benefit level with no other income), and the tax rate (the rate at which earnings are subtracted from the basic benefit) - have direct negative consequences on work effort. Simply stated, social assistance programs: 2) reduce the financial pressure to work by providing recipients with a guaranteed income; and b) reduce the willingness to work because the tax rate lowers the economic gain from working additional hours. Economic theory, however, is incapable of predicting the magnitude of any reduction in work effort. Only empirical studies can accurately determine the effect of guarantee and tax rates on incentive to work. But, before turning to a discussion of these studies, several other factors which may impinge upon a recipient's decision to work need enumeration.

Work Requirements

Work requirements, often imposed as a condition of welfare eligibility, are used to guard against a decrease in work effort. The term "work requirements" is a misnomer since programs rarely demand recipients actually work. In the absence of guaranteed jobs, recipients can only be encouraged to actively search for work or upgrade their skills.

The effectiveness of work requirements is open to question. Tax payers benefit from the knowledge that recipients must work if jobs are available. Also, requirements entail less expenditure than do reductions in tax rates. The rationale for not requiring an active job search is the costs imposed on recipients, employers, and governments (13). Aside from the direct costs to recipients for transportation etc, if a client is forced to accept the first available job, he may lose an opportunity to get a better job or upgrade his skills. During times of high unemployment, continued job searching can be frustrating to clients and a nuisance to employers. Also, enforcing the requirement means higher administrative

costs to governments. Such requirements are not an effective means of reducing welfare expenditures (13).

Client Knowledge of Incentives

A pertinent aspect of work incentives is the extent to which recipients are aware of them. Past experience has shown that many welfare recipients are unaware of the meaning of exemptions, nor do most know whether or by how much employment will raise their income (6).

Accounting Periods

Another element that may affect work effort is the accounting period of the program. "The longer the period over which income is examined; the slower the program will be to provide full benefits to someone who has left the work force and the more it will encourage sustained rather than sporadic work efforts; and the slower it will be to reduce the benefits in response to increases in a recipient's income, thereby softening the initial impact of the benefit-loss (tax) rate" (2, p.27). In short, without a regular check on income, work disincentives are reduced but at higher costs (since recipients are more likely to report changes that will increase their income).

Work Expense Deductions

Work expenses serve to lower the estimated tax rates on gross income. By allowing expenses such as transportation, baby sitting, and other special needs reasonably related to working, the nominal tax rate - hence work disincentive - is lowered. For instance, though the tax rate on the American welfare program "Aid to Families with Dependent Children" (AFDC) is theoretically 67%, actual rates have proven much lower - usually under 50% (14,15).

Social Motives

Added to the economic reason for working are social motives such as an adherence to the work ethic, contact with other people, and the desire to avoid boredom and the stigma of welfare.

B. Empirical Evidence on Work Incentives

In addition to the conceptual aspects of work incentives, there is a body of empirical evidence on the issue. The data may be divided into experiential and experimental categories. On the experiential side, nearly all the research deals with the American Work Incentive (WIN) Program. A \$100 million series of income maintenance experiments constitutes the second category.

1. Work Incentive Program

The WIN program was created in 1967 and became operational in July 1968. Jointly administered by the Department of Labour and the Department of Health and Human Services, as well as state departments and local agencies, its objective is to move AFDC recipients into unsubsidized private-sector jobs, thereby increasing their economic self-sufficiency while reducing caseload and cost. Social services and employment services are provided to meet this objective. Employable recipients are required to participate or suffer decreased benefits. Those exempted from mandatory registration - aged, disabled, single mothers with children under six - are encouraged to participate voluntarily (7).

WIN has evolved from a voluntary program stressing job placement, manpower training, and remedial education to a mandatory one emphasizing on-the-job-training, and currently to intensive job search by participants (16,17). The major alteration in program priorities came with the "Talmadge Amendments" of 1971 which shifted concentration from institutional training to on-the-job-training and direct placement activities. The original program is sometimes referred to as WIN I and the revised program, WIN II.

The results of WIN I were disappointing: in 3 1/2 years, only about 10% of the adult caseload was enrolled and only 3% had been placed in employment (6). In spite of required registration and much higher administration costs, results of WIN II are not very different. Case closings for employment related reasons have been constant at about 7% (17). Including recipients who remain on welfare after finding a job, between 15 and 20% of all WIN registrants enter employment or training each year (6,7,13,17). One 18-month follow-up study found that 70% of WIN participants

were still on welfare even though 60% were employed at the time of the survey. Less than half of those employed reported obtaining their jobs through WIN (18).

Clearly, the original goal of WIN - to reduce caseload by making recipients financially independent through employment - has not been realized. The reduction in caseload reported in the above studies is probably no greater than would be expected without WIN (18).

The evidence also suggests that expenditures for WIN have exceeded the savings accrued from placement. Among WIN participants in 1974 and 1975, the cost of WIN per participant exceeded the reduction in AFDC payments by a factor of nearly 2 for men and about 4 $\frac{1}{2}$ for women (13).

Despite the failure of WIN, most participants perceive the program as a way of improving job prospects and generally welcome the chance to take part (19). This is not surprising since most have worked in the past, and are highly motivated to end their dependence on welfare. They believe WIN will provide an opportunity to upgrade their skills and avoid the type of unstable, low-skilled jobs they have had in the past. Unfortunately, although most enrollees expect job training (and findings indicate that specific job training is the most valuable component of WIN), very few actually receive such a service. The kind of training that is offered involves work socialization training (grooming, dress, job interviewing), skills that are generally already possessed. Most clients express disappointment with the type and level of training (19). As a result of the discrepancy between client needs and actual program activities, participants emerge from WIN* more resigned to welfare and less confident in themselves than when they registered for WIN (2), and relegated to the same type of low status job that would have been found without WIN (17). Only recipients with little or no previous employment experience benefit from WIN (16).

* Note that when skills training was a major component of WIN (before 1971), most registrants rated the program favorably (18).

WIN has failed for 3 basic reasons: a) Lack of adequate funding. The attempt to include and service a huge number of recipients was far too ambitious for the funds available (only \$365 million annually for the last 5 years); b) Poor labour market. Solutions to problems that are eminently structural must address the demand side of the labour market. With high unemployment, supply side programs such as WIN have little chance of success; and c) Fundamental misunderstanding of the problem. WIN, like other incentive programs, is based on the notion that welfare recipients need encouragement to work. Since most employable recipients would not resort to welfare if there were available jobs, WIN could not be expected to reduce caseload levels in the absence of job creation measures.

2. Income Maintenance Experiments

The basic features of a welfare program - eligibility rules, incentive accounting systems, benefit schemes, and program components - can be simulated to estimate the impact on work effort and other variables of interest (20). Beginning in 1967, a series of negative income tax (NIT) experiments was carried out to determine the influence of a guaranteed income on work effort and family stability (21). Under a NIT plan, families receive social assistance benefits that are negatively related to outside income and positively related to family size. With no other income, beneficiaries receive a guarantee, which in most proposals is set at about two-thirds of the poverty line. As income increases, benefits are reduced by the tax rate, generally 50% (22).

Four controlled experiments have been completed, testing NIT at various guarantee and tax levels. Several locations were chosen: New Jersey and Pennsylvania; Seattle and Denver; North Carolina and Iowa; and Gary (Indiana).

(i) New Jersey - Pennsylvania

The New Jersey Graduated Work Incentive Experiment, more commonly called the New Jersey Income Maintenance Experiment, began in 1967. Some 1350 randomly selected low-income families in four New Jersey cities and Scranton, Pennsylvania, were divided into experimental and control groups. Experimental families were distributed among eight NIT plans with 4 guarantee levels and 3 tax rates (21).

Each family participated for 3 years. There was no work requirement.

The major finding was there was a slight reduction in work effort by experimental families as compared to the control group. Male heads of families reduced work effort by only 5 to 6% (21,23,24). The impact of benefits on wives was more substantial (15%) but still relatively small on an absolute basis; 36 minutes a week (2,25,26). Overall, there was very little response variation to differing guarantee levels or tax rates (2,24).

(ii) Seattle - Denver

NIT experimental research continued on a larger scale with the Seattle - Denver Income Maintenance Experiment begun in 1970. Problems encountered in New Jersey such as restricted sample sizes, limited duration of the experiment, and under-representation of some ethnic groups were rectified. The SIME/DIME research involved 4800 families assigned to experimental or control groups. There were 3 guarantees (adjusted for family size and inflation) of about 90%, 125% or 140% of the poverty line with 4 different tax rates. There were actually 3 separate experiments lasting 3, 5, or 20 years.

Data from the first 2 experiments showed that the average working husband reduced his hours of work by about 6% at a 50% tax rate and by 11 or 12% at a 70% tax rate. Wives reduced their labour supply by 23% with a 50% reduction rate and by 32% at a 70% tax rate. Female heads reduced their work effort by 7% and 15% under 50% and 70% benefit reduction rates (21,22). There was no significant difference by racial groups, geographic location, or duration of the program, but work reductions did vary significantly with tax rates and guarantee level (27). The reduction in work effort resulted primarily from lags in rates of entering employment rather than from people quitting their jobs (21,28).

(iii) North Carolina - Iowa

Another criticism of the New Jersey study, a lack of rural families, was redressed by income maintenance experiments initiated in rural North Carolina and Iowa from 1970 to 1972. Results were much the same as in urban areas with husbands showing little tendency to reduce work effort. There was some substitution from off - farm to farm work.

(iv) Gary

Conducted between 1971 and 1974, the Gary experiment tested 4 NIT plans combining 2 guarantee levels and 2 tax rates. Results on labour supply indicated that husbands reduced their work effort marginally - between 3 and 7%; findings that are consistent with those in New Jersey and Seattle - Denver. In contrast to other income maintenance experiments, however, it was found that wives did not reduce their work effort possibly because of the few available part-time positions in Gary. Also, female heads reported considerably larger reductions in work effort (26 to 30%) than in Seattle - Denver, because of a larger guarantee effect in Gary. Tax effects were found to be insignificant which was also attributed to the limited local labour market: decreases in the tax rate may not increase work effort if there are no available jobs (29).

(v) Summary

The results of these experiments indicate that the husbands do not substantially reduce their work effort because of the income maintenance program, but that wives - having more flexible work choices - were more likely to reduce hours of work. In addition, significant reductions in tax rate had only a minor bearing on the decision to work while increasing costs substantially. Increasing guarantees significantly decreased work effort in Seattle - Denver and Gary, but not in New Jersey. Based on these results, the effect of income maintenance payments on work incentives is open to interpretation. Many insist the effect is negligible (19), while others maintain any decline in work effort is too much (30,31).

3. Other Empirical Evidence

The effect of rising guarantees and tax rates is evident in the labour supply response of AFDC families in the southern states (17). Many of these states had their own work incentives before 1967, when they were implemented nationally. They also had very low guarantees. Until 1967, the southern states showed the highest percentages of AFDC mothers working. But, between 1967 and 1977, with benefit levels increasing substantially (up to 135%) and tax rates increasing under new federal rules, there was a large decrease (between 40 and 60%) in those mothers working, though

general unemployment also increased during this time. In contrast, states without work incentives prior to 1967, showed an increase in work effort on average (12,17).

Another study found that as AFDC benefits increased by \$1000, employment rates of recipients declined by about 4.5%, and that a 10% increase in the tax rate resulted in a 2% drop in employment among recipients (2).

IV. Conclusion

Judging from the research, it appears that the disincentive effect of social assistance on labour force participation is likely to be small, though some work reduction may be expected. On the other hand, the findings also suggest little success in moving people off welfare and into employment using work incentives. The solution to rising caseload ultimately lies in the labour market. Failure to consider the confinement of recipients to the secondary labour market will doom any work incentive measures. Thus, work requirements, income disregards and lower tax rates cannot, by themselves, move people away from recurring dependency on welfare. A combination of work incentives with opportunities for training and upgrading may be more successful, assuming available jobs.

The experimental evidence strongly suggests that reducing the tax rate will have little effect on work incentives but would increase costs of the program substantially. It would thus be advisable to set high tax rates. Regarding guarantees, the evidence is less conclusive; but keeping benefits at or just below the poverty line would not have a deleterious effect on work incentive. Work requirements should be maintained for public acceptability of welfare programs, and an avoidance of any possible reduction in work effort. The requirement should be relaxed in times of high unemployment, however.

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SEPARATION OF SOCIAL SERVICES FROM
INCOME MAINTENANCE

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SEPARATION OF SOCIAL SERVICES FROM INCOME MAINTENANCE

One of the major changes in the American welfare system during the past decade was the separation of social services from income maintenance. "Separation" involves separate administration of income maintenance programs such as social assistance from social services; e.g., child welfare, family services, day care, services for the elderly, handicapped and retarded, and information and referral services.

Separation has two components (1,2):

- (a) The first involves assigning responsibility for social services to one group of workers, while giving responsibility for determining eligibility for assistance to another. The first group is known as social workers, social service workers or caseworkers. The latter class, generally believed to require less skills and training, is called income maintenance workers or eligibility technicians.
- (b) The other component concerns the criteria for instigating services. Before separation, workers periodically visited recipients to assess need for continued financial aid, and offer services they perceived as necessary to solve family problems and attain economic independence. Under separation, service workers usually have no contact with recipients unless specifically requested by the recipients.

Brief History of Separation

The debate over separation has existed since 1935 with the enactment of social security (3,4). Federal guidelines for public assistance were designed by social workers concerned with the adverse effects of mass relief. The federal government asked the states to use social casework as the model for welfare recipients. In the 1940's, the federal position changed as experts started to advocate separation to avoid subversion of service goals. Public preoccupation with caseload reduction and fraud during the fifties led to the development of special investigative units which in turn resulted in a professional and institutional uproar against such units. This pressured the federal government to strengthen the bonds between aid and services. By the late 1960's, however, there was yet another federal reversal, with separation once again in favour. Federal concern over rapidly increasing costs of state claims for social services prompted this reversal. The trend toward separation culminated in 1973 when the Department of Health, Education and Welfare required each state to separate financial aid from social services.

The federal mandate for separation was rescinded in late 1976, however, with the implementation of Title XX, the 20th Amendment to the Social Security Act. Providing a new framework for the administration of social services, Title XX shifted the responsi-

bility for planning and policy in social services from the federal government to the states. It broadened eligibility, linking it to income rather than social assistance status, and made some social services open to everyone without regard to income (4,5).

A few states have reintegrated social services and income maintenance in the wake of Title XX, with moves to establish common intake for services and income maintenance, common supervision for both functions, and some administrative integration (3). The \$2.5 billion ceiling for Title XX forced many states to cut back staff and services (5); and pressures states to charge as much of the costs of their social services as possible to income maintenance funding sources. Thus, administrative reintegration has become attractive to the states.

Intent and Effects of Separation

Motives behind the requirement to separate were to: (3)

- eliminate the confusion about the relationship of aid and services;
- assure freedom of choice to clients in seeking and using services;
- improve administration through adequate planning, staffing, and financing of each component;
- utilize personnel more effectively;

- make possible determinations of the cost effectiveness of both functions;
- simplify the determination of eligibility so that it could be performed by clerical personnel rather than social workers;
- prevent states from inappropriately claiming the administrative costs of public assistance (federal reimbursement of 50%) as social services (federal reimbursement of 75%); and
- broaden the scope of needed social services.

In addition, proponents of separation argue that, using this format, services can be provided under non-adversary and non-demeaning conditions, and use of social services for those not in need of income support is legitimized (1,2). Finally, some political leaders hoped separation might reduce the use and hence the cost of services (1).

Several disadvantages of separation have also surfaced: (2,6)

- the deprofessionalization of income maintenance staff is blamed by some for high rates of error, fraud, and abuse, as well as frequent income maintenance staff turnover;
- recipients face many obstacles to accessing social services due to poor linkage between aid and service;
- applicants claim they cannot qualify for welfare because the staff does not learn enough about applicants and their situations;

- separation has caused a lack of good caseload standards which, among other problems, makes it harder to obtain funding for more social workers.

Other disadvantages are listed in the following section.

Research on Separation

No national evaluation has been attempted to determine the effects of separation of services (3). Except for the work of Piliavin and his colleagues (1,7,8) observing separation versus unification in Minneapolis, little empirical research has been undertaken. Their findings suggest possible service delivery problems arising from the separation. Specifically: AFDC recipients made higher demands for, and voiced greater satisfaction with, combined delivery of financial aid and social services; service workers believed that recipients were more satisfied when the social service worker could initiate contact with the client (pre-separation) than when initiation was solely the responsibility of the client; recipients under the separation format were more likely than recipients in the combined condition to seek social services from other social agencies; separation may lead to greater inequity in service provision to the public since the more assertive and less alienated recipients make more requests for services; and, requests for services are often perceived by clients as an admission of

incompetence (this is less of a consideration when the worker initiates contact and makes inquiries as under a unified system).

Conclusion

There is not yet an answer to whether separation is good or bad. Little has been learned in the decade-and-a-half since experimentation with separation began.

Choices about the relationship of aid and services are "increasingly impelled by fiscal considerations rather than either program goals or the likely effects of separation" (3, p.15). Chances of this changing in the near future are slim with Reagan's policies of fiscal restraint and decentralization in social areas.

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REVIEW OF WORKFARE

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REVIEW OF WORKFARE

Workfare or work relief refers to a system whereby social assistance recipients are forced to work for their benefits. Benefits continue to be designated as welfare (and thus may be below minimum wage), and tasks are assigned to allow the recipient to symbolically work off his debt to society (1).

Work for welfare is based on a fundamental value that people ought to work for what they get. The imposition of workfare begins with a division of recipients into employables and unemployables. The argument runs that employables should be required to work for their welfare payments for any or all of the following reasons: (2-4)

1. Work fosters feelings of self-esteem among recipients, providing needed work and valuable experience to improve job skills and work habits of participants.
2. The work contributes to the community good and hence reduces expenditures.
3. Those who would take advantage of the welfare system are discouraged, thus caseloads are reduced.

Brief History of Workfare

The notion that able-bodied welfare recipients should work for their benefits dates back to the Elizabethan poor laws of sixteenth and seventeenth century England (4). As a specific policy of the nation, France adopted workfare in 1625 and England in 1696. Later, workhouses were established throughout Europe and by the late eighteenth century spread to North America (3). Workhouses soon proved unable to maintain themselves economically or lower welfare caseloads and costs, but were continued in the hope of deterring others from resorting to welfare (3). Workhouses have now disappeared, having proved economically and socially unsound.

In more recent years, the workfare concept has been promoted with almost cyclical regularity in tough economic times (4). Nonetheless, federal constraints on provincial, state, or local use of federal funds for work relief remained strong (1). In the U.S., non-federal programs such as state-run General Assistance have long included workfare arrangements. In Canadian provincial and local jurisdictions, work relief was once as prevalent as in the U.S. (1). Even Saskatchewan traditionally used recipients to work on roads. With the introduction of the Canadian Assistance Plan, however, provinces or municipalities were not allowed to require work for benefits if the federal government was to cost-

share. Provinces, thus far, have not been willing to shoulder the entire cost of a workfare plan.

Whereas such federal restraints have remained strong in Canada, they began to deteriorate in the United States during the seventies. Utah became the first state to be granted permission for workfare under the federal AFDC program in 1976 (although it had already installed the program without permission and suffered an 18-month loss of AFDC funds). Massachusetts established a similar program in 1978, followed by Oklahoma, Texas, North Carolina, and other states (1). The Department of Health, Education and Welfare faced increasing pressure from Congress to allow AFDC workfare nationwide. Throughout the seventies, HEW authorized states to run pilot projects involving work for relief and by 1977 Congress established pilot projects requiring food stamp beneficiaries to work off their benefits (1). Finally, in the summer of 1981, new federal welfare amendments encouraged the states to require AFDC recipients to work at designated jobs for benefits.

Recent Workfare Programs

In 1961, the U.S. Bureau of Family Services surveyed state workfare programs. The following conclusions were drawn: (3)

- (a) Most work relief participants were men who were assigned to low-skill jobs;
- (b) Workfare cost more in public funds than general assistance;
- (c) Workfare did not reduce caseloads; and
- (d) Projects interfered with regular employment.

As noted previously, states were permitted to experiment with workfare on a limited basis during the 1970's. Several workfare projects will now be described and assessed.

CWEP California's Community Work Experience Program was a three-year (1974-1976) demonstration program funded by HEW. CWEP provided for the selection and referral of employable AFDC recipients to non-paying work assignments. Assignments involved 80 hours of work each month at a public or private non-profit agency. Work-related expenses were paid by the welfare department or the employer. Loss of welfare benefits was the penalty for not co-operating.

CWEP was designed to help recipients reach self-sufficiency through employment, help increase employability by assisting participants to develop good work habits, reduce welfare costs, and discourage new welfare applications. Although intended to be mandatory, the program was treated as voluntary and resisted by many counties (5, 6). The official evaluation reported that

the program had failed to accomplish any of its goals (6). In the participating counties, there had been no decrease in caseload size through employment; the CWEP counties actually experienced a greater increase in AFDC applications than non-CWEP counties; and there was no significant change in the average cost per case (5, 6). Furthermore, of the 70,000 employable welfare recipients in California, only .6% made a successful transition to the regular work force via CWEP in a year (3).

WREP The New York Work Relief Program (1973-76) supplemented general assistance payments to the prevailing wage (did not include AFDC recipients). Full-time or part-time jobs covered a variety of public positions including janitors, mechanics, and typists. The primary intention was to control the volume of recipients.

Although WREP was generally popular among participants, it did not result in a smaller caseload, mainly due to a declining economy and New York City's fiscal crisis. The program provided 60% of its clients with public service jobs in 1975, but this fell to 16% in 1976 as a result of layoffs, a doubling in the General Assistance population, and a reduction in WREP jobs from 10,000 to 2,000 (5). In total, only 1,830 (9%) of the 20,000 clients in WREP jobs found unsubsidized jobs in the three-year period (5). Moreover, the project proved to be one-third more expensive than straight welfare. The cost finished New York's attempt at workfare in 1976.

WEAT Utah's Work Experience and Training Program was the first state-initiated welfare program. All employable welfare recipients were required to participate for three days a week (96 hours per month) so that recipients could obtain work experience training, job skills, and good work habits (3, 5). Participants received normal welfare rates. WEAT was well co-ordinated with the Work Incentive Program to the benefit of each.

The jobs held by clients were predominately low-skill in nature with the occasional semi-skilled position (e.g., painter, truck driver). Utah claims success with the program, with 23% finding employment and another 25% leaving welfare for other reasons between 1974 and 1976. Unfortunately, no control group has been studied to determine the normal rate of turnover, so the claim of success is unsubstantiated (3). On the positive side, 60% of participants believed that their WEAT experience would help them find jobs in the future. In assessing the work requirement, 38% of clients spoke positively, 20% negatively, and 42% exhibited a resigned acceptance (5).

SI-WEP The Massachusetts Special Incentive - Work Experience Program (1977-1979) was a careful attempt by researchers to evaluate workfare. Over 1,000 AFDC fathers were assigned at random to either the workfare experiment or a control group subject to the usual welfare procedures. Each workfare participant

was assigned work for three days a week (to a 100-hour limit) with two days per week of job counselling and search. Nine months after the assignment, data were gathered on work and welfare experiences. It was found that 63% of the workfare fathers had experienced some unsubsidized employment versus 57% of control group fathers (3). The difference was not significant. Again, most workfare assignments required no skill at all and hence had little training potential. The program also encountered opposition from community groups and passive resistance from many caseworkers so that only 256 recipients appeared at worksites and only 27 spent 100 hours at their work assignments (5).

Summary of State Programs From the foregoing discussion of workfare efforts, the validity of the arguments used in support of workfare is questionable. The proposition that people should work for what they get is meaningless in the face of record unemployment. The assertion that workfare will improve job skills and work habits has not been proven, largely because participants are usually assigned marginal work. The provision of meaningful work is not easily attained in the current job market. The marketability of these clients has therefore remained low, and feelings of low self-esteem may have been reinforced (3,4). The claim that workfare reduces caseloads and expenditures is not supported by the empirical data. In fact, workfare programs

have frequently proven more expensive because of high administration costs associated with monitoring and supervision of job performance. If recipients were provided with upgrading or training, caseloads may eventually decline, but immediate costs would be even higher than straight workfare. Finally, empirical findings undermine the argument that workfare deters new applications for social assistance.

Conclusion

It seems that previous efforts at workfare (and attendant subsidized employment) have failed to meet their stated goals. The main reason for the failure stems from a fundamental misunderstanding about the reasons people resort to social assistance. An overwhelming body of literature proves that the vast majority of employable welfare recipients want to work but cannot due to a lack of jobs (3-5, 7). For this very reason, workfare cannot be expected to reduce caseload, costs, or new applications. Without available jobs, "The requirements become a way of blaming the poor for their condition, of harassing them, and perhaps most damaging, raising and then dashing their hopes for a better life" (2, p.41).

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REVIEW OF JOB CREATION

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REVIEW OF JOB CREATION

Unemployment currently at a post-World War II high in most industrialized nations (totalling 30 million) promises to be a persistent problem throughout the eighties. Today's high unemployment and tomorrow's employment problems are rooted in a generation of technological, demographic, and social changes that have replaced manual effort by automation, increased the number of youths, minorities and women in the labour market, and altered the pattern of international trade (with developing countries exerting more influence) (1, 2). The main consequence of these changes is "structural unemployment", which means that workers do not fit into the labour market because their productivity simply is not needed. Although recessions certainly exacerbate the problem by adding "cyclical unemployment", the structural problems of the labour market go far beyond the current recession.

Accompanying periods of high unemployment is public pressure on governments to introduce policies and programs to alleviate the problem. Governments the world over have recently turned to job creation to reduce unemployment, reflecting a major change of emphasis from earlier training-education placement efforts and expansion of income support (3). Yet job creation has frequently been criticized as a waste of taxpayers' money (4): thus the need for a critical review of such programs.

The first section of this paper defines job creation, lists the objectives, presents the various versions, discusses the rationale for such measures, and looks at the method of operation of a typical program. The next section examines efforts in job creation by Canada, the United States, and several other countries. A review of the advantages and disadvantages of job creation then follows.

THE CONCEPT OF JOB CREATION

Job creation may be defined as any government policy designed to increase employment of specific groups or regions experiencing high unemployment or income poverty (3). Therefore, the major objectives of job creation are to: (4, 5)

- (a) reduce cyclical unemployment without increasing the rate of inflation (labour costs may actually be reduced in aggregate);
- (b) relieve certain structural imbalances in the labour market;
- (c) produce goods or services of social value which neither the private sector nor government agencies provide (thereby avoiding displacement of the employed);
- (d) increase the employability of the participants; and/or
- (e) provide stimulus to the economy through increases in purchasing power of the participants.

The target population of these programs is typically males under 25 with few marketable skills and little education (4).

Job creation may involve government directly or indirectly (6, 7). Direct job creation has two approaches: public service employment (PSE) where participants are paid by the government, usually through public works programs; and wage subsidies to private employers for hiring certain unemployed people. Governments may also choose indirect economic stimuli such as tax reductions to create a climate more conducive to job creation.

Whichever version, job creation efforts range from informal to highly structured, some with only token financial support, and some with government funding in the billions of dollars (6). Some aim to add to existing employment, others want to avert net reductions of employment.

The rationale for job creation may be grouped into three areas: social, political, and economic (3). The social rationale involves the benefits derived from working. Since unemployment reduces self-esteem, work will provide recipients a needed psychological boost. For the public, work is viewed as more desirable than welfare and, in addition, outputs meeting some social need are produced. Political rationale include: (a) apparent failure of expensive programs to upgrade and train the poor so that they could earn their own way out of poverty. "The failure of (this) supply-side approach increased the relative attraction of a demand-side strategy -- hence, job creation" (3, p.44); (b) the substantial increase in welfare outlays caused strong opposition from taxpayers. The obvious remedy was to put recipients to work. Concerning economic rationale, job creation may offset the adverse effects on the hard-core unemployed of minimum wage laws, discrimination by employers, union power, and disincentives created by income maintenance programs, "and in so doing lead to increased employment and earnings of low-wage workers and to increased output and aggregate employment with little or no inflationary pressure" (3, p.45).

A typical job creation program might be aimed at long-term unemployed residents under age 25, with the government perhaps offering a company wage subsidies or exemption from social security costs. Jobs subsidized are usually temporary (a few months) to increase employment during cyclical downturns, to ensure that the enterprise is not permanently subsidized, and to obtain a quick response. The hope is that the employer will keep the employees when the subsidy ends. Most job creation programs offer no vocational training courses, though some on-the-job training may be given. Wages are at minimum wage or near the prevailing market wage -- usually between unemployment benefits and regular employment

The actual jobs tend to be in low-skill, labour-intensive industries most affected by recession such as clothing, textiles, footwear, construction, metalworking, wholesale and retail trade, and hotels and restaurants (8).

PSE projects are established in areas where unemployment is most chronic. Examples of these projects are: co-operative day care; hot meals delivered to the elderly; recreation for the handicapped; counselling for troubled youth, ex-prisoners, drug addicts; outreach employment counselling; half-way homes; health and legal aid clinics; consumer advocacy organizations; and environment beautification projects (9).

JOB CREATION IN CANADA AND ABROAD

Canada

Canada's job creation effort since the Second World War has been among the best in the industrialized world (1). The federal government has experimented with a variety of job creation programs (see Table 1). Approximately \$2.5 billion has been spent on PSE programs since the early seventies (1), the best known of which was the Local Initiatives Program (LIP). Phased out in 1977, LIP was a labour-intensive, winter-season, community involvement program serving over 50,000 clients annually. It paid the local going wage and cost about \$140 million a year. Projects were to be non-profit ventures creating at least 15 months of employment for low-skill unemployed people. LIP was reportedly successful at its goal of temporary employment for the hard-to-employ. Long-range follow-ups on projects have been rare, but one early study suggested that a majority of participants remained employed three months after the LIP job expired; participants and the community were pleased with LIP; some women were drawn from outside the labour market into the market and then left unemployed after LIP (10)

It is important to note that these results may reflect several factors unaccounted for by the study, such as a relatively low unemployment rate during the early seventies, and the summer follow-up -- the time of the highest employment.

LIP was superseded by a more comprehensive year-round program called "Canada Works", which funds projects for up to 52 weeks. The scheme is designed to establish incremental local employment using the management resources of non-profit organizations or project sponsors. By 1982, it had provided 208,000 jobs at a cost of \$680 million (1). In 1977/78, Canada Works provided places for 6% of the unemployed (4).

Another PSE project, the Local Employment Assistance Program (LEAP), was designed to create long-term employment for the chronically unemployed including women, natives, the handicapped, welfare recipients, and ex-convicts. About 9,000 clients benefit from the program each year.

Two schemes were targeted at unemployed young people. Opportunities For Youth created an average of about 30,000 jobs annually until replaced in 1977 by Young Canada Works, a summer program aimed at students and costing between \$40 and \$50 million annually.

There have been two major private-sector initiatives in Canada during the last decade. The Job Experience Training Program operated from 1977 to 1979 and offered young people summer employment. Between 1978 and 1981, the Employment Tax Credit Program (ETCP) offered wage subsidies in the form of tax credits up to \$2 an hour for incremental employees. It was intended to create 50,000 jobs a year.

No comprehensive assessment of Canadian job creation efforts has been attempted (1). Some limited reviews have been completed, however. The Economic Council of Canada indicates that the incremental gain in employment due to ETCP was from 20% to 37%. The net annual cost per job was between \$9,500 and \$17,500. Participants were often long-term unemployed. Employers were generally small firms with fewer than 20 people. Finally, considerable displacement effects were evident in ETCP with windfalls to employers estimated at between 63 and 80% of the entire subsidy (1). PSE ventures were less likely to displace workers but showed a high fiscal substitution effect (where program money is used for normal payroll costs instead of job creation). The average annual cost of a PSE job was \$14,000 (1).

United States

Of recent job creation endeavours, the United States was the forerunner with a range of programs developed in the sixties. Under the Manpower Development and Training Act and the Economic Opportunity Act, several programs were established to provide work for the hard-to-employ. The largest of these was the Neighbourhood Youth Corps set up to benefit poor youths aged 16 to 21. Targeting on their particular weaknesses (e.g., lack of work experience, poor qualifications) and funded by the federal government, the Corps paid the wages of participants in local community projects designed to provide part-time work and counselling services for students to enable them to continue their education. About 5.8 million youths were helped by this program between 1964 and 1974, costing over \$500 million dollars yearly by 1973. In general, the performance of the program did not measure up to its stated goals, nor improve the employability of participants (5).

A second program, Operation Mainstream, focused on chronically unemployed adults, mostly in rural areas, and provided community improvement services. Remuneration was slightly more than minimum

wage; little attention was given to skill training. Enrollment was 20,000 to 30,000 a year, with a cost of \$83 million in 1973. Evidence on this program suggests that the record in placing clients in permanent unsubsidized employment was poor -- usually under 20% (3, 5).

Another program, New Careers, was initiated to address shortages of professional staff with the object of providing opportunities for the disadvantaged. Its clientele was generally better educated and more experienced than those in other such programs. The federal government offered subsidies to public service employers to provide clients with on-the-job training and open up promotion prospects. It was later merged into the Public Service Careers program, serving a peak of 66,000 participants in 1972 at a cost of \$117 million. Results of the program suggested that occupational upgrading was not achieved (5).

A parallel private sector scheme was set up in 1968 to provide "technical and financial assistance to private industry for the hiring, training, and upgrading of hard-core unemployed and disadvantaged workers" (5, pp. 46-7). Called Job Opportunities in the Business Sector (JOBS), it was funded by the federal government. The project increased employment and employability with 494,000 trainees hired in three years. There was a relatively high turnover rate with retention of 47% of the trainees. Success in placing so many clients was mainly due to the low level of unemployment; "many firms had difficulty filling vacancies" (5, p.52). Firms laid off workers when unemployment rose, however. In addition, even when the economy was healthy, performance was poor because many beneficiaries did not receive training from industry (5).

Other smaller private-sector job creation programs were tried in the seventies, such as the New Jobs Tax Credit (NJTC), and Targeted Jobs Tax Credit, designed to increase the demand for low-wage labour (3). Employment effects attributed to NJTC were considerable -- ranging from 150,000 to 670,000 new jobs, although displacement effects were not studied (3). Incremental gain in employment was estimated at 20 to 30% (1).

In 1971, with the adoption of the Emergency Employment Act, programs became decentralized and aimed at any unemployed individual. The Public Employment Program (PEP) served to battle cyclical unemployment, and provide stimulus to the economy through increases in purchasing power. Job creation projects were oriented to public service needs (e.g., teachers, police). PEP was a success in creating as many jobs as possible for the funding; more than 160,000 jobs were created in the first year, averaging \$7,500 each. During its two-year duration, over \$2 billion was spent. Participants remained in the program for over a year on average, and about two-thirds of participants considered their PEP experience valuable in finding unsubsidized employment. State and local projects generally hired the best qualified worker, though, meaning the disadvantaged had little chance of being hired for a PEP job. Estimates of displacement ranged from 35 to 50% (5).

PEP was superseded by the Comprehensive Employment and Training Act (CETA) in 1973. It was an attempt to consolidate and decentralize the nearly 10,000 manpower projects across the U.S. CETA was designed to create temporary employment (plus training and support services to the disadvantaged). Funds were available to areas where unemployment was 6.5% or greater for three consecutive months; they ceased when unemployment fell below 6.5% for three months straight. This "triggering" illustrated the countercyclical

nature of CETA. It was funded at \$2.5 billion in 1975 with 325,000 jobs created yearly. Yet with over 7 million unemployed in 1975, CETA could only employ 5% of them (5).

CETA was successful in providing a large number of jobs in a short period of time even as unemployment was rising. When unemployment began to fall after 1975, CETA's proportional impact became more impressive. By 1978, CETA provided places for nearly 10% of the total number of unemployed (4). The impact on employment lessened with time, however, with funds being used for projects which would have gone ahead without CETA. Estimates of fiscal substitution range from as little as 8% (4) to nearly 100% (11), with most estimating that about one-half of the funds were diverted from job creation (3, 12). CETA money was used widely to rehire teachers, police, and firemen whom the locality could no longer afford to pay. There have also been scandals: Chicago had to return \$1 million in misspent funds and Baltimore was accused of using its money for political patronage (13).

CETA, like most other job creation programs, offered little training to participants (3). One study estimates that one-third of participants managed to find a job after the subsidized job expired (4).

More recently, the Reagan administration has swung to indirect job creation through tax cuts. With U.S. unemployment now hovering around 10% and expected to remain high throughout 1983, the success of this method is questionable.

Other Countries

Most industrialized nations are currently experiencing the problem of record unemployment. A broad range of programs have been tried; the following brief descriptions outline the approach of several countries and report on their outcomes.

Belgium

Heavy emphasis is placed on creating PSE jobs. The Belgian "Cadre special temporaire" aims at all unemployed, most of whom are young males with little education. There is no provision for vocational training courses though some on-the-job training may be given. Only 10% of unemployed males and 3% of jobless females were employed through this program in September, 1978 (4).

Denmark

Danish programs are centred around community benefit and usually give priority to young people. Jobs may last up to 26 weeks, roughly 90% of which are sponsored by local government agencies (15). The Danish Public Employment Works placed little emphasis on training, and the average length of placement was only 5 to 6 weeks (4). Thus, employability could not be expected to improve. Only 3% of the unemployed in Denmark took part in the program during 1976/77 (4).

France

France has focused on stimulating the private sector to create jobs. Under a 1977-78 program in France (the National Pact for Employment), French employers who hired workers under age 25 were temporarily exempted from paying their share of the social security payroll tax. The Government claimed that, in the short term, this program helped ease unemployment: if the initial social security and training costs were offset for a sufficiently long period to permit job creation, then small firms might hire new workers (16). The program proved very costly, however, and Copeland concluded, "it seems unlikely that the new programs can be permanently continued without being accompanied by a high rate of economic growth necessary to generate new jobs" (16, p. 36). Of the 550,000 workers affected, only 20 to 30% have actually been attributed to the program (14).

Germany

The German job creation program - ABM - was initiated in 1973. Projects must last less than one year, be in the public interest, create incremental employment, and provide training. Any unemployed individual is eligible, though in 1977, only 18% were female. Results indicated that between 50 and 70% gained unsubsidized employment shortly after participating in ABM. But for the hard-core unemployed, "ABM seems little more than a short interlude (away from unemployment)" (15, p. 110). Hanley and Jackson also expressed concern about the long-term displacement effects of ABM (15).

The Netherlands

In 1974 the Dutch announced a job creation plan where young people under 23 who have been registered as unemployed for at least two months may be included in socio-cultural and health projects. Again, most clients were male and only a small percentage of the unemployed benefitted (4). No technical training was provided, although some jobs such as laboratory and research assistants offered good potential for on-the-job training.

Norway

In 1975 Norway introduced a policy entitled Extra Employment Scheme to create jobs for the unemployed with priority given to older workers. Work places were created within the public administration, social services and public health, and the environmental sector. Norway was more successful in reaching a substantial proportion of the country's unemployed than elsewhere; 26% were absorbed by the program (4).

United Kingdom

The Job Creation Program launched in 1975 provided temporary employment primarily for young males with little education. Projects were to be non-profit but the criterion resulted in participation by few industries and was later relaxed. Improving employability was the central purpose. In 1978 the program created 49,000 jobs (mostly urban renewal projects) accounting for only 4% of the

unemployed (4). About 86% of participants expressed satisfaction with some aspect of the program, although only 20% said it helped them find later employment. Nonetheless, from 50 to 60% of participants found a job at the end of their placement (4).

The Job Creation Program was phased out in 1978 and replaced by a more comprehensive scheme. Individuals 18 and under are served by the Work Experience Program, which provides structured work experience in a variety of settings. For those over 18, the Special Temporary Employment Program supplies temporary jobs in urban renewal projects. STEP, a "redundancy-averting" plan (seeking to avoid net reduction in employment), added to the public deficit in Britain (14). It terminated in March 1979 after supporting 518,000 jobs.

EVALUATION OF JOB CREATION

The inadequacy of data from previous job creation plans, together with the limitations of evaluative techniques, makes it very difficult to obtain an unambiguous picture of their performance. Nevertheless, the programs reviewed do suggest several positive and negative implications.

Positive Implications of Job Creation

- a) The primary objective of job creation--to reduce the number of unemployed--has been met. Most programs seemed to have reached their target group.
- b) In most schemes, between one-third and one-half of participants manage to find a job after leaving the program.
- c) Because more people are working, job creation adds to GNP, taxpayers benefit from the taxes paid by new workers and the reduction in transfer payments, and an increase in purchasing power by the target group indirectly creates more jobs.

- d) Wages paid to participants in these programs are generally low, which reduces total labour costs, thereby helping to lower inflation.
- e) Most efforts are concentrated on less skilled groups in high unemployment areas or in periods of high unemployment, thus help alleviate structured imbalances (e.g., reducing the inequality of income distribution), cyclical unemployment, and again, generate little inflationary pressure.
- f) The costs of creating jobs directly are substantially below the government outlays required to create employment via tax cuts or general spending increases (3, 17).
- g) Participants expressed satisfaction with such programs. Participation may impart psychological benefits to workers (1).

Negative Implications of Job Creation

- a) Although job creation programs help reduce cyclical and structural unemployment while the scheme is in operation, there is little evidence that long-term structural unemployment is addressed.
- b) A limited proportion of the unemployed become participants -- in most countries, under 10%. In addition, up to two-thirds of clients remain unemployed after the program -- a proportion that increases as the economy contracts.
- c) Creating jobs is extremely costly -- as much as \$20,000 annually per client. The government deficit increases or other services must cut back to accommodate job creation.
- d) Little attention is paid to the quality of jobs created. Most are temporary jobs with no opportunity for learning a skill. Thus, when funding expires, most clients are left with no job and no skills. A related point: past programs did little to encourage a better redeployment of manpower (granting subsidies favouring industries that will be essential for expansion).
- e) From past projects, it appears that wage subsidies run a real risk of displacement -- firms hire unemployed workers (to take

advantage of the subsidy) to replace other workers who then become unemployed themselves. Displacement may also mean less stable and satisfactory jobs take the place of permanent ones (8). Displacement in the private sector may reach 80%, while 20% is the estimate in PSE plans (3).

- f) PSE programs have displayed a tendency towards fiscal substitution -- funds earmarked for job creation displace the recipient administration's own resources. Well over half of job creation funds may be used for other purposes.
- g) PSE projects often produce no marked output. Pay to recipients plus overhead costs deprive resources from the private economy. Hence, the government may be substituting public jobs for private jobs (18).
- h) As recession deepens, the idea of using job creation to help the disadvantaged is lost in the rush to provide jobs for any unemployed person. The typical temporary countercyclical program cannot provide enough jobs or money for such emergencies (13). Also, the more such a program expands, the greater the risk of inflation.
- i) Job creation programs may actually reduce productivity, since employment is increased at a much greater rate than output (participants usually have lower skill and hence lower productivity than regular workers). There is also the possibility of such programs impeding technological change to keep people working. This hurts productivity, jeopardizes a nation's international trade position and hence adds inflationary pressure and ironically may fuel future unemployment.
- j) Many programs have proven very difficult to design and administer (3). For example, supervisory personnel are hard to recruit because of the low wages (4). Setting the level of wage subsidy is another problem: too low and the number of jobs created is minimal; too high and greater displacement occurs with heavier drain on public funds (3).
- k) Few women are hired by job creation schemes, and one researcher has concluded that the criteria of many programs implicitly favoured the creation of work traditionally done by men (4).

CONCLUSION

When viewed as a short-term palliative measure that allows a portion of the unemployed to gain time until the employment situation improves, job creation has been moderately successful. It can marginally reduce unemployment very swiftly and channel assistance towards specific groups or regions. But, valuable as job creation may be against cyclical unemployment, it does little to address the root of the problem - structural unemployment. At best, program participation is a means of gaining job experience which may sometimes be enough to find a job (4).

Long-term job creation offers a better chance of alleviating structural unemployment if aimed at the disadvantaged and if it involves an element of training. Yet such a program may entail prohibitive costs and still remain relatively ineffective against unemployment: "With non-accelerating inflation, an across-the-board doubling of budgetary resources for (job creation) and training programs might lower the overall unemployment rate in five years by two or three tenths of a percentage point if the expansion of these programs were efficiently managed" (7, p. 58). Nevertheless, job creation cannot be dismissed totally. Work will be needed for more than one billion people across the world by the year 2000 (International Labour Organization), close to four million of them in Canada alone. Neither government nor the private sector alone can provide enough jobs to meet the demand. Close co-operation between government and business will be needed to provide as much work as possible. Alternatively, private and public sectors could attempt to address unemployment by reducing the labour supply via promoting greater flexibility between the worlds of education, work, leisure, and retirement, and by implementing work distribution measures and work sharing.

Of course, it is quite possible that government will discover that it is not possible to reduce structural unemployment. With technology becoming more sophisticated, society will simply not need the productivity of an increasing section of its manpower (2, 19).

"The biggest problem facing the industrial states between now and the turn of the century is to adjust their social and political institutions to take account of the new technological and economic facts of life that are emerging" (2, p. 296).

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Table 1

Number of Jobs Created and Program Expenditure, by Program, Canada, 1971/72 to 1981/82

	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82
Local Initiatives Program (LIP)											
Number of jobs created	92,300	85,876	30,157	31,610	40,650	43,083	...	...	...	...	...
Program expenditure (\$ millions)	182.8	192.5	67.6	79.9	128.3	177.2	...	...	...	...	...
Canada Works (CW)											
Number of jobs created	...	...	...	...	...	...	89,739	75,631	45,456	17,648	...
Program expenditure (\$ millions)	...	...	...	...	...	...	320.8	168.1	98.3	96.5	...
Economic Growth Component											
Number of jobs created ¹	...	...	...	...	...	...	...	15,076	4,714	...	...
Program expenditure (\$ millions)	...	...	...	...	...	...	...	28.4	16.5	...	...
Local Employment Assistance Program (LEAP)											
Number of jobs created	...	...	1,534	1,856	1,639	1,504	2,219	3,006	6,892	8,807	...
Program expenditure (\$ millions)	...	...	5.4	11.8	13.3	14.0	19.0	24.1	48.2	...	...
Opportunities for Youth (OFY)											
Number of summer jobs created	27,832	29,954	37,392	27,525	29,312	...	...	...	...	...	...
Program expenditure (\$ millions)	23.1	31.0	35.9	26.3	32.3	...	...	...	...	...	...
Young Canadian Works (YCW) Program											
Number of summer jobs created	...	...	...	...	...	...	30,157	27,635	33,037	...	...
Program expenditure (\$ millions)	...	...	...	...	...	...	43.6	42.5	52.4	...	...
Summer Job Corps (SJC) Program											
Number of summer jobs created	...	...	...	...	...	...	5,348	6,413	...	...	...
Program expenditure (\$ millions)	...	...	...	...	...	...	8.5	11.5	...	...	...
With Job Corps (YJC) Program											
Student summer projects	...	...	...	...	...	...	...	...	7,954	...	...
Number of summer jobs created	...	...	...	...	...	...	...	...	17.1	...	...
Program expenditure (\$ millions)	...	...	...	...	...	...	...	...	8,419	...	...
Year-round nonstudent projects	...	...	...	...	...	...	...	...	29.8	...	...
Number of summer jobs created	...	...	...	...	...	...	...	...	...	...	...
Program expenditure (\$ millions)	...	...	...	...	...	...	...	...	...	...	...
Employment Tax Credit (ETC) Program											
Number of jobs created	...	...	...	...	...	...	...	19,811	50,786	...	...
Program expenditure (\$ millions)	...	...	...	...	...	...	...	...	90.0	...	...
Summer Youth Employment (SYE) Program											
Number of summer jobs created	...	...	...	...	...	...	...	...	...	45,335	...
Program expenditure (\$ millions)	...	...	...	...	...	...	...	...	...	53.4	...
Summer Canada (SC)											
Number of summer jobs created ²	...	...	...	...	...	...	...	...	...	...	18,623
Program expenditure (\$ millions)	...	...	...	...	...	...	...	...	...	...	34.5
Canada Community Development Program (CCDP)											
Number of jobs created	...	...	...	...	...	...	...	...	...	19,780	...
Program expenditure (\$ millions)	...	...	...	...	...	...	...	...	...	109.5	...
Canada Community Services Project (CCSP)											
Number of jobs created ³	...	...	...	...	...	...	...	...	...	1,635	...
Program expenditure (\$ millions)	...	...	...	...	...	...	...	...	...	11.6	...

¹ Includes short-term jobs, numbering 3,174 and 1,974 for 1978/79 and 1979/80, respectively.

² The program started in May 1981. The figures reported are tentative.

³ The figures reported are tentative.

SOURCE: Data from Employment and Immigration Canada. (1)

GUARANTEED ANNUAL INCOME

Saskatchewan Social Services
Planning & Evaluation Branch
April, 1983

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GUARANTEED ANNUAL INCOME

There have been several recent attempts at reform of the Canadian income security system in response to inequities and inefficiencies inherent in its fragmented and uncoordinated structure. Most reform efforts had as their centerpiece a guaranteed annual income scheme which could integrate most or all of the existing programs into one universal income-tested program. As the name suggests, a guaranteed annual income sets an income floor below which an eligible person will not fall, the ultimate objective being the reduction of disparities in income distribution among the population (1). Although a guaranteed income can be theoretically achieved through a variety of measures such as a guaranteed job or minimum wages, it has come to refer exclusively to a unification of the transfer and personal income tax systems - the negative income tax (NIT). The basic idea behind NIT is to extend the income tax system under zero so that those with low income receive a transfer from the tax system.

The reform efforts failed for political and economic reasons, nevertheless developments in the seventies point to an eventual adoption of a nationwide guaranteed income program (2). Indeed, the guaranteed annual income is "an almost inevitable evolution of our present income security system" (3, p.93). It is, therefore, important to understand the concept of guaranteed income so that incremental changes to the current welfare system will ensure a firm foundation on which to achieve this goal. This paper reviews the guaranteed annual income concept by discussing the characteristics, administration, advantages, disadvantages, effects, cost, and types of NIT.

CHARACTERISTICS OF NIT

The idea of a negative income tax was first advocated in 1946, when George Stigler discussed extending personal income tax to include negative taxes. More recently, Milton Friedman, Robert Lampton, and James Tobin have espoused NIT plans that would make a guaranteed income available to all low-income families and individuals.

Goals Although there are different approaches to a guaranteed income, there are several commonly accepted goals (2, 4-6):

- The primary goal is to increase equity in the income security system by filling gaps in the present categorical system (e.g., extending benefits to the working poor) and offering uniform benefits across the country;
- Another important objective is to achieve administrative savings by unifying and simplifying tax and transfer structures, thereby delivering a higher proportion of the welfare dollar to the recipient;
- A third goal is to provide a work incentive by allowing recipients to keep some fraction of earned income;
- By making payments automatic, a fourth goal is to reduce the stigma inherent in present welfare programs;
- Finally, guaranteed income schemes aim to be responsive to changes in current circumstances.

Theory NIT has four essential features: benefits are paid in cash; benefits are inversely related to income (recipients gain financially if they earn some income); benefits are based on family size and income insufficiency only (there is no work requirement); and benefits are paid through the tax system.

The three basic elements on which NIT is based are the guarantee level, the (marginal) tax or reduction rate, and the break-even level (2, 6, 7).

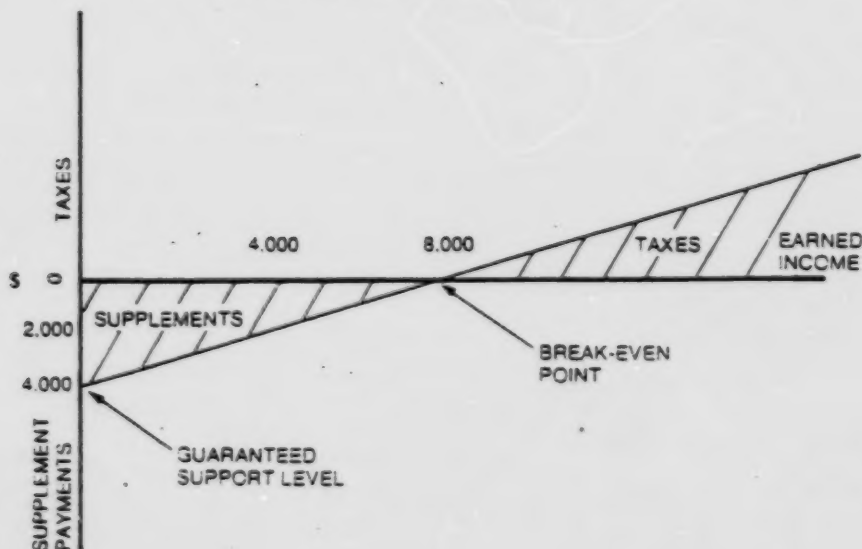
The guarantee level is the minimum income guaranteed to a recipient with no other sources of income. Varying by family size, it may or may not conform to the poverty line.

The reduction rate determines the rate at which NIT allowance is reduced as income increases (i.e., what percentage of earnings will be deducted from the guarantee). Multiplying income by the tax rate and subtracting the result from the guarantee will give the benefit entitlement.

The third element, the break-even level, is the point at which payments cease and positive taxes begin.

Chart 1 should help to clarify these concepts. In the example, a family of four is guaranteed \$4000 annually with a reduction rate of 50%. If the family earns no outside income, the benefit is \$4000. But if the family earns \$4000, total income will be the \$4000 guarantee plus \$2000 (50% x \$4000) earnings or \$6000 tax free. The break-even point in this example is \$8000 (50% x \$8000 = \$4000), beyond which the family must pay positive tax.

CHART 1
A NEGATIVE INCOME TAX SCHEME



When any two of these three elements are decided upon, the third is automatically determined. This forces a trade-off between the three basic policy objectives of any income security program: adequacy - adequate income to meet basic needs; work incentives - allow retention of some employment earnings to discourage a reduction in work effort; and economic efficiency - benefits should be concentrated on those with little or no income so that costs of the program are reasonable. To maximize work incentives, the guarantee and tax rate must be low: this is inequitable for those who cannot work. Raising the guarantee becomes more fair for the unemployed but increases the cost of the program* (i.e., break-even level) and compromises work incentives. Increasing the tax rate lowers incentive to work. Raising both the guarantee and tax rate increases the cost of the program and hurts work incentives. The compromise chosen among these elements accounts for the main differences between NIT proposals.

From Theory to Practice In theory, the actual mechanics of running a NIT program are reasonably simple. Guarantee levels would be set according to the size of the family and income from the previous year (or expected income for the coming year) as declared on income tax forms. Payments would be made to those with income below break-even level as normal tax refunds in the spring. Turning theory into practice would demonstrate that this alluring simplicity is unrealistic, however. For instance, most low-income households could not wait for a once-yearly payment, requiring instead monthly payments (2). Projecting income would be a difficult exercise for many recipients - those overestimating income would be required to refund any overpayment, a hardship for the poor. These and many other problems (enumerated below) detract from the theoretical administrative simplicity of NIT schemes.

* Note that since the break-even point is the income level at which a beneficiary stops receiving transfers and begins paying taxes, the cost to the government of a high break-even is doubled: transfers increase while taxes decline (7).

ADMINISTRATION OF NIT

A successful implementation of a NIT plan would require the settling of several important administrative issues, primarily involving reconciliation with the existing personal income tax system. Without a common definition of countable income, filing unit, and accounting periods, many transfer recipients may also have to pay taxes. The ideal administration would involve low-cost, flexible definition of income, maximum participation, maximum responsiveness, minimum intrusiveness and compliance cost for recipients, minimum collection of overpayments, and minimum stacking of tax rates (8).

Definition of Income The most important area for harmonization of the negative and positive tax systems is the definition of income. The two schemes use a different concept of countable income, NIT including all income from every source so that only those most in need qualify for a transfer, and positive taxes allowing various exemptions and allowances - including exempting most government transfers - to create economic incentives and preserve equity. Leaving tax loopholes in a NIT system would prove extremely costly as the non-poor become eligible for transfers. Removing the loopholes would effectively raise taxes, in many cases to unacceptable levels. Any compromise in the definition of income would offset much of the administrative gain from integrating the systems.

A related issue is whether to take into account an individual's assets. Current welfare programs have a much lower threshold of allowable assets than does the income tax system. For NIT, considerations of equity would argue that a recipient shall be required to use some of his stock of wealth before qualifying for a transfer. Imposing an offsetting tax on imputed family wealth has been suggested as a compromise (5,6), but this could affect work effort and savings/consumption (9), encounter political obstacles (6), and, again, increase the complexity and cost of administration.

Definition of Eligible Unit Along with income, family size determines the level of the net transfer under NIT. Traditionally, the income security system has used the family as the basis for eligibility decisions, while the tax system uses the individual. A NIT program demands defining the family as the basic unit to avoid family splitting (10, 11), and avoid elaborate, rigid and arbitrary rules to define income transfers among separate family members (9). For transfer payments, using the family unit makes sense since "a family's economic welfare is a function of the aggregate income of the family" (11, p. 63). Thus, the tax system would have to switch to use of the family unit as the base for taxation. Without lowering marginal tax rates, this would significantly raise taxes for families with more than one wage earner, and may induce family splitting. Moreover, more of the simplicity of NIT is lost.

Accounting System A NIT accounting system has three reference periods: accounting, assessment, and payment (4). To conform with the income tax system and to reduce inequities caused by income fluctuations, the accounting period - the time for which support levels are defined - should be the calendar year. The assessment period, how often income is reported and eligibility verified, should be short to remain responsive to the changing circumstances of recipients. The frequency of payments should be at least monthly since many people would be relying exclusively on NIT transfers. Among the implications of the NIT accounting system to the personal tax system are:

- Since NIT payments based on a previous year's earnings would not be responsive, the tax system would become burdened with frequent assessments and monthly payments. Without frequent assessments, large problems of underpayment and overpayment would occur. Collecting overpayments would be politically difficult and may cause hardships for the poor (8). In addition, overpayments would be extremely costly to governments, since interest on those funds would be foregone (10);

- If transfer payments are made monthly, tax refunds might also have to be mailed monthly since a large rebate in the spring would introduce a sharp fluctuation in the normal flow of income (9); and
- Merging of negative and positive taxes can be achieved by full integration where the personal exemption in the positive tax equals the break-even level in NIT, or 'overlapping' where the personal exemption is set below the break-even point, but the NIT tax rate extends above break-even income until it intersects the positive tax schedule (12). A fully integrated system would be prohibitively expensive if adequacy was to be maintained (as high-income taxpayers received substantial tax cuts) thus an overlapping system is generally preferred. Overlapping systems, however, are much more complicated and carry a higher administrative cost. To illustrate overlapping, Chart 1 will be used again. In that example, the guarantee was \$4,000 with a 50% reduction rate and a break-even point of \$8,000. A small family might be exempted \$6,000 in the positive tax system but would be liable to both positive taxes and a NIT reduction rate on any income between \$6,000 and \$8,000. This would damage work incentives (13). Exempting this family from positive taxes to break-even level would introduce a marginal tax rate of over 100% at an income of \$8,001 as positive taxes at the \$8,001 level took effect. Overlapping would exempt this family from positive tax beyond \$8,000 to perhaps \$9,000, and instead apply the reduction rate of 50% up to \$9,000 at which point a positive tax rate of around 15% would take effect. This approach, too, would cost the government tax income, but is much cheaper than a fully integrated system which would exempt the entire \$8,000 for all taxpayers.

Summary Most of the administrative problems emanating from the integration of the tax and transfer systems derive from the simplistic design of NIT. Massive restructuring of both the income tax system and income security system would be necessary because of the inflexibility NIT plans would introduce into the tax system (10, 13). Administrative savings achieved by unifying current transfer programs would be offset by a reduction in income tax revenue inevitable from combining the tax and transfer systems (unless, of course, taxes were raised for higher income earners).

ADVANTAGES OF NIT

Despite the complexities arising from the application of NIT, it would be considerably simpler than the present income security system. There are several additional advantages over the current system:

- a) Perhaps the main accomplishment of implementing a NIT would be the elimination of most of the fragmented and uncoordinated programs that make up the Canadian income security system (15). Abolishing the plethora of federal and provincial programs would save millions of tax dollars which could be better spent directly assisting the poor. Problems with categorization, such as improvements to one program causing problems for another, are eliminated;
- b) As a single agency assumes responsibility for the tax-transfer system, the gaps and overlaps of the current system disappear. The most significant gap in today's system - lack of coverage for the working poor - would be redressed by NIT which would automatically supplement the incomes of this group (5, 16, 17). Overlaps, most obvious for clients aged 65 and over who may receive transfers simultaneously from Old Age Security, Guaranteed Income Supplement, Canada Pension Plan, and various provincial social assistance and supplementation schemes, may be eliminated and replaced with one cheque;

- c) NIT would be more equitable than the present system with benefits that would not vary among regions or categories of recipients (5);
- d) Integrating the tax and transfer system means superior targetting of net benefits to the poor and greater take-up of benefits since the majority of Canadians are already tax filers and there is no need to apply for assistance (payment is automatic) (2, 17);
- e) An objective income test replaces the discretionary means or needs test of present welfare programs (13, 16);
- f) The stigma of receiving transfer benefits would be substantially reduced because the needs test is abolished (17) and receiving payment from the taxation system is not now stigmatic (2, 16);
- g) NIT helps rectify the inequities in the use of exemptions in the personal income tax. The poor, at present, derive no benefit from exemptions because they have no taxable income. NIT, by extending benefits to those without taxable income, makes income taxes more progressive (1);
- h) With NIT, the stacking of tax rates which occurs in the present system would be eliminated (6, 8). Clients would no longer have to fear a sudden loss of benefits from a particular social program if their income rises;
- i) Less restrictive asset limitations under a NIT means that there would be stronger incentives for saving money than provided by current welfare programs (5);
- j) The NIT concept enjoys support throughout the political spectrum (5, 18). Conservatives see it as a way of reducing the cost and complexity of the extant welfare system, whereas liberals view it as a step towards more equitable income distribution;
- k) A NIT would reduce the incidence of welfare fraud, as tax forms, which provide exhaustive income information, can be readily checked (15);

- l) NIT is versatile in that considerable control over the distribution of benefits can be achieved by changing guarantee or reduction levels, or by modifying the definition of income (13);
- m) NIT increases risk-taking in the labour market, possibly leading to more financially rewarding jobs (19). Moreover, NIT lessens the job security risk of technological innovation, and hence may lead to better productivity;
- n) Since income is guaranteed, NIT would make it easier for recipients to take job training (13).. This would result in a better trained work force;
- o) NIT could reduce the unemployment rate as potential workers withdraw from the labour market to pursue their education, raise children, or participate in voluntary activity (2). A better educated work force would be a significant advantage in a high tech job market;
- p) If, as the evidence suggests, minimum wages decrease some marginal employment opportunities, then the reduced importance of minimum wages with the adoption of a guaranteed income could produce a slight expansion in available jobs, primarily in the small business sector (2);
- q) The self- employed business sector might be strengthened because more people would be willing to risk starting their own business with a guaranteed income in place (2); and
- r) Finally, NIT would "probably be a way of quelling the rising discontent of the poor with the present system" (3, p. 93).

DISADVANTAGES OF NIT

Opposition to a NIT plan centers on the following disadvantages:

- a) NIT would reduce work incentives for the able-bodied poor (5, 13, 16, 20). A guaranteed income reduces the pressure to work, particularly for those who normally work in low-skill, low-wage occupations;
- b) The cost of NIT was enough to finish proposals for a guaranteed income in Canada, Britain, Australia, and the U.S. during the seventies, and remains the major obstacle to establishment of such a scheme in the eighties. (The issue of cost will be elaborated upon below);
- c) It is unlikely that any NIT system would replace all existing income security programs primarily because there would be a need for a more responsive program in emergencies (i.e., some type of social assistance) and because of the low guarantee level which would be necessary for economic and political feasibility (6). Thus, some of the problems which inhere in multi-program social security systems such as stacking of tax rates, duplication of administration, stigma, and confusion would continue (5, 6);
- d) NIT does not address the causes of poverty and hence does nothing to help the poor become self-supporting (6, 13);
- e) The overlap of positive and negative taxes can cause undesirably high cumulative marginal tax and benefit-reduction rates for the working poor (21). The only way to avoid this is to substantially raise the cost of the program;
- f) Because of regional and inter-program variation in benefits under the current system, some clients would probably lose income if a NIT plan was instituted (22). Again, this situation can only be avoided if a very generous and costly plan is adopted;

- g) Abandoning the needs test means that a NIT would have less flexibility than existing welfare programs for dealing with variation in the extent of need (5, 13);
- h) Introduction of NIT would inevitably cause an increase in taxes in order to pay for the program. Given that tax evasion varies positively with taxable income (10), NIT may actually encourage tax evasion (6, 10);
- i) Deciding how to treat families of different sizes is a problem because the goal of equity (larger transfers to larger families) conflicts with incentives to increase or decrease family size. That is, if the guarantee is increased in equal increments with each child, there will be an incentive to increase family size; alternatively, if the per capita size of the guarantee decreases as the number of children rises, an incentive exists to split the family (6, 13);
- j) The divorce of social services from cash payment is a cause for some concern. As has happened in jurisdictions which have separated personal and financial services, clients in need of personal services are less likely to make use of such services when they are separated from income maintenance (23);
- k) An integrated tax/transfer system would impose undesirable restrictions on future tax and redistribution policies: government could no longer pursue independent fiscal policies or independent social security policies (6, 10);
- l) NIT would be very difficult to implement within Canada's complex and sensitive federal-provincial structure (8). Many current programs operate under provincial jurisdiction and certain provinces - especially Quebec - would be reluctant to relinquish control over highly visible social programs;
- m) General wage levels may be reduced since employees with incomes below the guarantee are being subsidized (24); and
- n) The increased taxes necessary to pay for a NIT plan, may increase calls by the middle-class for a tax revolt (20).

NIT EXPERIMENTS

A series of negative income tax experiments carried out in the United States since 1967, constitutes a very valuable source of information on the effects of NIT. Costing \$100 million, four controlled experiments, situated in New Jersey/Pennsylvania, North Carolina/Iowa, Seattle/Denver and Gary (Indiana), simulated the basic features of a NIT to determine the influence of guaranteed income on work effort, family stability, and several other variables.

Work Effort The four experiments reported largely similar results on work effort: Husbands did not substantially reduce work effort due to NIT but wives, having more flexible work choices, were more likely to reduce hours of work. Table 1 summarizes the findings for a NIT plan with a guarantee equal to the poverty line and a reduction rate of 50% (25). A more feasible plan would set a somewhat lower guarantee, hence the work disincentive would be smaller: One study estimated that a guarantee set at 65% of the poverty line would result in a 2% work effort reduction for husbands, 6% for wives, and 11% for single mothers (25).

Table 1. Average differences in weekly hours between control and experimental groups in four test areas

Area and source of estimate	Husbands		Wives		Female heads of families	
	Absolute difference	Percentage difference	Absolute difference	Percentage difference	Absolute difference	Percentage difference
New Jersey-Pennsylvania						
U.S. Department of Health, Education and Welfare: ¹						
Wives	-1.9	5.6	-1.4	30.6	-	-
Black	0.7	2.3	0.1	2.2	-	-
Southern-Isleaving	-0.2	0.7	-1.9	55.4	-	-
Mail: ²						
Wives	³ -2.4	7.1	³ -1.5	32.8	-	-
Rural (nonfarm)						
U.S. Department of Health, Education and Welfare and Bawden: ⁴						
North Carolina blacks	³ -2.9	9.0	³ -5.2	31.3	-	-
North Carolina whites	2.1	5.6	-2.2	21.5	-	-
Iowa whites	-0.5	1.2	-1.2	20.3	-	-
Seattle-Denver						
Keeley and others: ⁵	³ -1.8	5.3	³ -2.1	14.6	³ -2.6	11.9
Gary						
Moffitt: ⁶	-1.8	4.7	0.2	3.7	³ -2.0	27.8

¹ See Summary Report: New Jersey Graduated Work Incentive Experiment (U.S. Department of Health, Education and Welfare, 1973).

² See Robert Mail, "Effects of the Experimental Negative Income Tax on Labor Supply," in Joseph A. Pechman and P. Michael Torgans, eds., *Work Incentives and Income Guarantees* (The Brookings Institution, 1975).

³ Significant at 10-percent level (15 percent for New Jersey Department of Health, Education and Welfare estimates).

⁴ See Michael Keeley, Philip Robins, Robert Spiegelman, and Richard West, "The Labor Supply Effects and Costs of Alternative Negative Income Tax Programs," *Journal of Human Resources*, Winter 1978, pp. 3-36.

⁵ See Robert A. Moffitt, "The Labor Supply Response in the Gary Income Maintenance Experiment," *Journal of Human Resources*, Fall 1979, pp. 477-87.

Note: Hours differences are regression-adjusted for differences between experimental and control group members in years of education, age, and similar variables.

In general, then, NIT would have a minimal effect on work effort. Furthermore, at levels of high unemployment the whole issue of work incentives becomes less important. With unemployment at 8% or higher, a NIT plan "would have very little short-run impact on aggregate employment and output or on the rate of inflation ... because most labor force withdrawals would be replaced" (26, p. 86). The significance of this is that the adequacy economy/incentive dilemma becomes more resolvable; a NIT plan could set a high guarantee and a high tax rate with little concern for work incentive effects. There are problems with this approach, however: if unemployment falls work incentives may assume greater significance; and, the cost of a NIT would become prohibitive with high unemployment rates as the government tax intake declines and transfers to individuals rise.

Family Stability In 3 of the 4 experiments, NIT families showed 60% more marital breakdowns than control families (27). Table 2 displays the ratio of the experimental to control split rate (28). There is a significant variation by ethnicity and guarantee level. Marital dissolution is higher among experimental (NIT) families for low and medium guarantee levels (except in Gary) and lower among experimentals for high guarantee levels. Marital instability increased even when the support level was no more generous than welfare payments under Aid to Families with Dependent Children. "The conclusion must be either that because of the differences in information, stigma, or transaction costs, the experiments produced more powerful independence effects than an equivalent amount of AFDC, or that receiving NIT payments somehow reduced the attractiveness of the married state by calling into question the success of the husband as provider" (28, p. 301). The implications are clear: unless the guarantee level is set at somewhat above the poverty line - an economic impossibility - marital breakup will rise under a NIT plan.

TABLE 2

RATE OF EXPERIMENTAL TO CONTROL GROUP MARITAL DISSOLUTION RATES

Guarantee Level	Seattle/Denver			New Jersey	Rural	Gary
(% of poverty level)	White	Black	Chicano			
75% - 90%	1.49	1.47	1.30	1.79	3.00	.75
100% - 125%	1.24	1.62	.82	1.64	1.14	.89
125% - 140%	.92	.94	.62	1.02	.85	-

Source: 28

Other Effects A number of studies were completed which examined the effects of NIT on expenditures, health, and social behaviour. NIT seems to have the effect of increasing outlays on housing and household equipment - participants were more likely to purchase houses and such appliances as refrigerators and washers (29). NIT had negligible consequences for health care utilization, physical and mental health, leisure activity and wage rates (29, 30). Results were mixed on job satisfaction, diets, and fertility (31). Among other effects: a nationwide NIT plan would induce people to move to locations with better environments and lower wage rates (32); NIT increased the birth weight of children of women facing high risk pregnancies - a significant positive health response (33); NIT had a positive influence on demand for education and training if a small subsidy for schooling was offered (34), and NIT led to an increase in average reading achievement of children (35,36); and experimental families continued to utilize personal social services as before with NIT unlikely to stimulate use or nonuse of social service programs (37).

Summary The American guaranteed annual income experiments suggest that NIT should have a negligible effect on work effort, a negative effect on family stability, and a mixed influence on consumption, health, and social variables. Assuming the results of temporary experiments can be extrapolated to a permanent NIT program, the findings suggest that a universal NIT plan should include a guarantee close to the poverty level and a high benefit-reduction rate with supplementary programs to encourage upgrading and training, and rate structure to encourage family stability (i.e., nearly equal grants to each family member).

COST OF NIT

Cost is the major reason that Canada and several other nations do not now have a guaranteed annual income. It seems obvious that a universal system which benefits many people not currently covered by an income security program will cost much more than the current system. How much more depends on the magnitude of the guarantee and reduction rate, on how the transfer system is integrated with the tax system, on how many of the present programs are eliminated, and on the unemployment rate.

Depending on the proposal, net cost estimates in the U.S. range from a savings of \$20 billion over the current system (15) to a program costing well over \$100 billion (current dollars) more than the present American system (5). Those proposals showing savings foresee the replacement of all existing welfare programs with a NIT plan offering a low guarantee and a 50% tax rate (e.g., Friedman's proposal). The most expensive proposals set the guarantee level above the poverty line with tax rates around 50%. Generally, plans promising savings take no account of the complications involved in combining the tax and transfer systems, and accept that many current beneficiaries of the existing system will be made worse off financially by a guaranteed income. Of

the more expensive plans, one scholar warns that such schemes would strain the very ability of the economic system to function, since they would impose marginal tax rates in excess of 80% on all families - of every extra dollar earned, a family would keep less than 20¢ (13). Therefore, a responsible NIT plan would not attempt to redistribute more than the poverty line, but instead would set the break even point somewhere below the poverty line by applying very high reduction rates (13).

Cost estimates for Canadian a guaranteed annual income with support level at the Economic Council's poverty line and a 50% tax rate would be around \$10 billion in current dollars if most of the existing programs are eliminated (11, 18). The more realistic Senate Committee proposal of 1971 with a guarantee of 70% of the poverty line and a tax rate of 70% would now cost about \$2 billion in excess of current expenditures, but excludes unattached individuals under age 40 and would leave the Canada Assistance Plan and social insurance programs (CPP, UIC, Workers' Compensation) intact. To eliminate more of the existing programs would require a higher guarantee unless the income of some recipients was allowed to fall.

Presumably no program which would increase the cost of social programs would be acceptable at this juncture considering a federal deficit in the range of \$30 billion: and since a guaranteed annual income program would increase social program costs it is unfeasible at present. Nevertheless, once political and economic conditions improve, a plan similar to the Senate Committee's may become feasible and would represent a significant step towards a more streamlined and efficient social security system in Canada.

TYPES OF NIT

There are two major variants of the negative income tax, two-tier and credit income tax.

Two-Tier A fundamental dichotomy exists between considerations of adequacy for those with little outside income and work incentives for those who normally work. One solution to this problem is a two-tier system. First proposed by Quebec's Castonguay-Nepveu report in 1970 and adopted by the federal government for its guaranteed annual income proposal of the mid-seventies, a two-tier system consists of a low guarantee/low reduction level for those in the labour force - the supplementation level, and a high guarantee/high reduction level for unemployables - the support level (2,7). The rationale was that those in the work force need low tax rates to maintain work incentive and have less of a need for a high guarantee since they will have outside earnings. The unemployed, however, need higher guarantees since it constitutes their entire income (2).

The main argument for a two-tier system is that it obviates the need for a tradeoff between adequacy and work incentives. With two separate (but coordinated) programs it is possible to design schemes which are well-suited to groups (employables and unemployables) with different needs. This approach has several weaknesses in comparison to unitary programs, though:

- a) Adoption of a two-tier scheme greatly complicates the administration of NIT because a process is needed to allocate clients to the appropriate tier (2,6);
- b) A two-tier scheme involves many discretionary decisions such as determination of employability, and considerations of job availability (2); and
- c) Shifting between levels upon gaining or losing employment would require new application, assessment and a change in benefit level (7).

In sum, although a two-tier NIT solves the tradeoff dilemma, it creates a complicated administration process with problems not unlike those faced by current welfare programs.

Credit Income Tax . The Credit Income Tax (CIT) is a special type of NIT first forwarded in 1943 by Lady Rhys-Williams who proposed that a "social dividend" be paid weekly to every man, woman, and child in Britain, the program to be financed by a flat tax on all personal income (5).

CIT has two main features (5, 11, 38): (a) a system of flat-sum refundable tax credits to replace all exemptions in the personal income tax system. A refundable tax credit is used much like an exemption to reduce taxes but if the credit exceeds tax liability, the individual receives the excess as a cash payment: thus, if income is zero, the individual receives a payment equal to the entire credit; and (b) a flat (proportional) income tax with no exemptions.

A variant of CIT is the demogrant approach. A grant is made to all households in a demographic category, independent of taxation. The income tax system later recovers whatever portion of the payment to which the individual is not entitled (depending on gross income). Family allowance is an example of a universal demogrant.

CIT has the same basic design as a pure NIT. The guarantee level is equal to the amount of the credit or grant. The reduction rate equals the tax contained in the existing income tax system. Where the credit and tax liability are equal is the breakeven point (38, 39). The fundamental difference between NIT and CIT occurs above the breakdown point: the entire positive tax structure is revised. The need for radical tax reform may be construed as a substantial liability for CIT plans, but such reform may be desirable in itself.

Many tax reform economists are advocating a broadened tax base with a constant benefit reduction rate for all income levels above poverty (after personal exemptions). These ideas fit well with a refundable tax credit. A constant tax rate would greatly simplify the administration of a credit. Evidence indicates that our present rate is only nominally progressive and, in fact, roughly proportional in its incidence due to tax avoidance among the well-to-do sanctioned by a complicated definition of taxable income. Thus, a switch to a constant tax rate and a more comprehensive definition of taxable income would not change substantially the relative tax burden among income classes, and would eliminate wasteful expenditures on tax avoidance. Further, a constant tax rate makes possible the calculation and disbursement of a family's net tax or transfer on a regular (say, monthly) basis. Frequent disbursements are important to those in poverty, who are by definition without the resources to meet their immediate needs. Finally, with a constant tax rate on all sources of income, variations in the periodic amount or source of income cannot lead to end-of-year, over- or under-payment of taxes. Therefore, there would be no end-of-year settling up, which is particularly troublesome for a low-income family that has received too much in transfers and has to find the resources to pay the excess back in one large sum. (39, p. 141)

NIT vs CIT CIT has essentially the same advantages as other NIT proposals but fewer of the disadvantages. Among CIT's advantages over pure NIT plans:

- a) With a flat income tax, CIT avoids the problems of integration with the tax system. It is administratively much simpler and cheaper than NIT (it meets the criteria for the ideal administration listed previously) and at the same time removes numerous inequities from the positive tax system (2,5,12);
- b) Replacing Canada's current income security system with CIT would have saved \$450 million in administration costs in 1978-79 (90% of the total administration cost) compared to a saving of \$300 million for NIT (40). Thus CIT is four times more economical to administer than NIT;

- c) Credits or demogrants can be easily paid universally on a periodic basis by mail or direct deposit, whereas NIT net payments must await the processing of applications and periodic income report forms (12).
- d) CIT, because it has constant marginal tax rates, has the advantage of entirely removing any tax benefit or loss resulting from fluctuations in income (2, 8);
- e) NIT entails a bothersome year end reconciliation, but since flat rate taxes can easily be deducted no matter what the source of income, CIT avoids this problem. Furthermore, only those with rental, self-employment, or capital-gain income would need to file a tax return (12);
- f) A NIT system, because of its varying marginal tax rates has to retain personal deductions, whereas CIT would eliminate all non-business personal deductions (12);
- g) With its comprehensive base, CIT eliminates the problem of definition of income. CIT also negates the problem of defining the family as the eligible unit since, no matter if the individual or family is designated, the same flat rate tax is levied (38);
- h) Regarding assets, the CIT flat rate can simply be extended to include pre-determined liquid assets (12);
- i) Work disincentives and savings disincentives may be slightly smaller under CIT than NIT (8, 12);
- j) With an easily implemented monthly payment system, CIT could eliminate all existing income maintenance programs, leaving the provinces responsibility for extreme emergency financial cases and personal services; and
- k) The contrast between CIT and NIT is essentially the debate between universality and selectivity (8, 12). Proponents of selectivity (NIT) argue that selective programs are much more target efficient - payments are made only to needy households - and that universal programs (CIT) are too expensive and less progressive since they pay rich and poor alike (41). Universalists counter that selective programs are no better at redistributing payments to the poor than universal programs because of the tax systems redistributive roles (42). Basic-

ally, a universal program like family allowances pays people who are well-off, but it does not deliver net benefits to them for two reasons: the affluent have their payments taxed away; and the wealthy pay for most of the program's total cost through progressive taxation (8, 42). Table 3 illustrates the relationship between benefits and contributions. Moving to greater selectivity will indeed benefit the needy, but it will also benefit the wealthy at the expense of the middle-class (8, 42). The example in Table 4 is a good illustration: Universal Program A pays each family \$3000 but the highest income quintile pays 51% of the costs (reflecting the approximate tax burden in Canada's income security system). Tax per family equals the tax burden for that quintile divided by the number of families. Moving to Selective Program B, the poorest quintile benefits but, because the cost of the program is less, the highest quintile is also better off. On the other hand, because the middle income earners lose their transfers, they are net losers (8). An important note is that a universal program is much more likely to be supported by the large middle class than a program targeted on the poor.

Table 3

Distribution of benefits and contributions in social security programs for 1975 (percentages)

Family after-tax income quintile	Family Allowance		Unemployment Insurance		Old Age Security		Guaranteed Income Supplement		Canada and Quebec Pension Plans	
	benefit	contrib	benefit	contrib	benefit	contrib	benefit	contrib	benefit	contrib
First	5.7	0.1	8.1	2.1	38.0	0.2	47.4	0.2	26.8	2.4
Second	12.6	5.1	22.0	11.4	31.3	6.2	33.1	4.8	30.8	13.6
Third	21.9	17.0	25.0	20.8	13.6	15.5	7.1	13.9	18.4	21.6
Fourth	27.6	27.6	22.6	27.0	8.2	24.3	5.6	24.8	12.7	27.2
Fifth	32.2	50.2	22.3	38.7	8.9	53.8	6.8	56.3	11.3	35.2

Source: (8)

TABLE 4

Illustration of potential winners and losers in moving to greater selectivity

Quintile	No. of families ^a (000,000)	Share of financing ^b %	Program A			Program B			Net income change, B-A \$
			Transfer per family \$	Tax per family \$	Net benefit \$	Transfer per family \$	Tax per family \$	Net benefit \$	
1	1.6	1	3000	-150	2850	6000	-90	4890	3060
2	1.6	4	3000	-1050	1950	3000	-630	2370	420
3	1.6	16	3000	-2400	600	0	-1440	-1440	-2040
4	1.6	25	3000	-3750	-750	0	-2250	-2250	-1500
5	1.6	51	3000	-7650	-4650	0	-4590	-4590	60
Total	8	100	24 billion	24 billion		14.4 billion	14.4 billion	0	0

a Approximate number of economic families (related persons sharing a common dwelling unit) plus the number of unattached individuals. Statistics Canada (1975)

b From Cloutier (1978). Shares of direct financing for Canada's social security system in 1975, rounded for easier calculation. Does not necessarily portray how a real program of family demogants would be financed.

Source: (8)

Summary It seems that CIT is much superior to NIT. In comparison to NIT, CIT does have its disadvantages, however. First, CIT is highly inefficient, mailing out cheques to over 10 million households to help some fraction. Second, although CIT cost per case would be lower, there would be many more cases so that the cost of CIT would be somewhat greater than the cost of NIT (8). A payment of \$2000 per person would cost \$48 billion, and though much would be recouped through personal taxation, the flat rate tax to fund this program may be excessive.

In addition, CIT faces many of the same disadvantages as other NIT schemes: it does nothing to address the causes of poverty, some beneficiaries of current programs would have their benefits reduced, it would be difficult to implement because of jurisdictional considerations, general wage levels may fall, and taxes would increase.

CONCLUSION

Despite the multitude of problems associated with a guaranteed annual income, there remains a consensus among conservative and liberal scholars that it would be the ideal replacement for Canada's fragmented income security system (8). Few believe that a monolithic income maintenance program will be instituted all at once, especially with the unfavorable economic outlook for the 1980's, and perhaps in the end it is not possible for one simplistic program to achieve all of the objectives of income security: "The complexities of the social welfare scheme in part reflect the complexities of the problems it is required to deal with, and the introduction of a simplified scheme will not reduce these complexities" (10, p. 183). Nevertheless, the current system is in need of rationalization and simplification, and a greater degree of harmonization with the tax system: "For too long, taxation on the one hand and income security on the other have operated in isolation as two distinct and parallel systems, with resulting inequities and anomalies." (1, p.17). Judicious incremental reform of the current systems can and probably will lead to a guaranteed annual income.

CIT is particularly amenable to incremental implementation. A first step might be to convert all personal tax exemptions to credits, the size of the credit determined so that the government would suffer no revenue loss. To partially compensate for the higher taxes faced by high income groups, marginal tax rates could be flattened across income groups and lowered for those with higher incomes (8).

Kesselman recently proposed eliminating the child tax exemption and the Refundable Child Tax Credit, increasing family allowances by nearly 150%, and recovering via income tax increasing proportions of family allowance payments as income rises. He estimates this proposal will save the federal government \$500 million annually. This proposal, combining progressivity, universality, and a simplification of the tax system would represent a significant step towards a CIT program (43).

Another suggestion, forwarded by Ross, involves revising and extending the Refundable Child Tax Credit, and gradually expanding the tax credit approach to include new households. This would be funded by revising the child tax exemption, increasing the selectivity of family allowances, and reducing the recovery threshold for tax credits. From this emerging guaranteed income program he recommended that existing programs for the aged be excluded (OAS, GIS, CPP/QPP) because clients would suffer a loss of benefits under a new program (2)..

Finally, a note about the relationship between a guaranteed annual income and unemployment. As unemployment increases, the cost of a guaranteed income increases (i.e., more transfers and less tax revenue). But, as more people lose their jobs, the inadequacies of the current system are aggravated and a guaranteed income becomes more crucial. A guaranteed income may help reduce unemployment somewhat by lessening the importance of a minimum wage (as previously discussed), and by removing individuals from the labour force through promotion of greater flexibility between the worlds of education, work, leisure, and retirement. In the event of continuing high unemployment, however, a guaranteed income is an economic and political impossibility unless complementary measures are undertaken to increase employment opportunities (e.g., work sharing, reducing the work week) and improve productivity to pay for government programs (e.g., promotion of high technology and a better educated workforce). In any event, steps can be taken now to improve and simplify the existing tax and transfer system, without additional cost to government. These steps would form the foundation for an eventual guaranteed annual income program in Canada.

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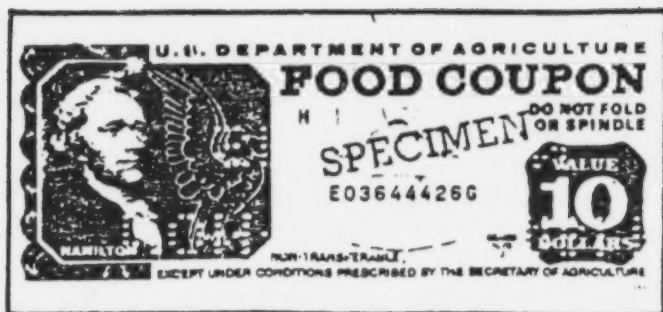
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THE AMERICAN FOOD STAMP PROGRAM

PLANNING & EVALUATION

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THE AMERICAN FOOD STAMP PROGRAM

Food stamps are coupons, slightly smaller than a dollar bill, which are exchanged at face value for food at retail stores. The Food Stamp Program is an enormously large and complex scheme which has as its stated goals: "to strengthen the agricultural economy; to help achieve a fuller and more effective use of food abundance; to provide for improved levels of nutrition among low-income households through a cooperative Federal-state program of food assistance to be operated through normal channels of trade ..." (Food Stamp Act of 1964). Although initially a surplus disposal/nutritional program, it has evolved into what is essentially an income transfer program (1, 2) distributing 13 billion dollars in coupons to 20.7 million recipients in fiscal 1983.

Because of the rapidly escalating cost, the Food Stamp Program has been the subject of public concern and nearly uninterrupted congressional attention since 1974 (3). Numerous issues have been the focus of controversy during the past several years including those related to administration, equity and efficiency, the appropriate target population, and even the basic purposes (4). Understanding the program requires a thorough review of its history and its method of operation. With this background, an evaluation of the program becomes more comprehensible.

HISTORY OF THE PROGRAM

As with many of today's social programs, the first food assistance program in the United States was begun during the Depression (5, 6). The primary aim of the program was to boost farmers' incomes through the distribution of surplus farm products to needy families. Meeting the food needs of the poor was a secondary goal. By

1939 some 13 million recipients were benefitting from the program, but because of problems with direct distribution and various other inadequacies a new food stamp program was initiated (5, 6). Operating between 1939 and 1943, the program allowed needy participants to purchase food stamps with that portion of their income normally spent for food. Participants were given free stamps of another color representing the federal subsidy. The coupons were redeemable at local food stores. World War II ended unemployment and eased farm surpluses leading to the termination of the program (5, 7).

After the war, farm surpluses once again accumulated and new commodity distribution programs were developed. While these programs continued and grew, new attempts were made to enact a food stamp program. Eventually Congress authorized a two-year pilot program in 1959 but with an impending election the Eisenhower administration chose not to implement it.

President Kennedy's first executive order in 1961 instituted eight food stamp projects located in seven states. The eight experimental projects were later expanded to 43 and covered nearly 400,000 participants at a cost of \$29 million by 1964 (6, 7). Evaluations of the program, which operated much like its wartime predecessor, were favorable and the outcome was the program in its present form (6).

Food Stamp Act

Congress approved the Food Stamp Act in August 1964. The Act authorized a three year program, "in order to promote the general welfare, that the nation's abundance of food should be utilized cooperatively by the State, and the Federal Government, and local government units to the maximum extent practicable to safeguard the health and raise the levels of nutrition among low-income households" (6). States instituted the program on a voluntary basis, but could not maintain any commodity distribution program in addition to food stamps.

Eligibility was determined at the state and local level on the basis of need. Applicants found eligible were authorized to buy food stamps at a purchase price equivalent to their normal expenditures for food. The federal government issued "bonus" stamps to supplement the funds provided by the recipient (7).

1971 Reform

Considerable interstate differences marked the program as it expanded throughout the sixties. Although 44 states comprising 3.2 million recipients were participating by 1969 (8), nationally only 22% of the poor in participating counties received food stamps (6). Concurrently, major publicity about 10 million hungry Americans focused public attention on the inequities and inadequacy of present programs. In response to increasing concern, President Nixon pushed for major liberalization of the food stamp program. The major modifications included: (2, 6, 9)

- Increased allotments sufficient to purchase a nutritionally adequate diet
- Setting the purchase price at a maximum of 30% of family income, with the most needy receiving free food stamps
- Giving food stamps priority over food distribution
- Setting uniform national eligibility standards and increasing the federal share of state administrative costs
- Allowing recipients to pay quarter fractions of the purchase price and to receive a corresponding fraction of bonus food stamps (i.e. recipients were no longer required to maintain their previous cash food expenditure).

Costs and caseloads accelerated rapidly due to these changes (6), but the problem of chronic hunger was largely eliminated (2). The amendments represented a major shift in emphasis from a program designed primarily to diminish food surpluses to one

addressing the issue of hunger in the United States (10). Moreover, it was altered from a program operated through programs designed by the states to one operating under one federal standard and administered by the states (7).

1973 Amendments

The Agriculture and Consumer Protection Act of 1973 mandated nation-wide implementation of the Food Stamp Program by July 1974 (8). This completed the switch from food distribution to stamps and meant that food stamps were finally available to all eligible low-income persons (6). Semi-annual adjustments to allotments were also required to protect participants from inflation.

The elimination of the commodity distribution program caused a large increment in food stamp caseloads. This, combined with a major recession and the extension of benefits to Puerto Rico, resulted in a 50% enrollment increase between June 1974 and April 1975. Furthermore, experts estimated that only about half of those potentially eligible had applied for benefits (4). Public concern prompted Congress to introduce several food stamp reform bills in 1976 aimed at lowering benefits and tightening eligibility, but a law suit filed on behalf of participants by states, labor unions, and civil rights groups against the Department of Agriculture stopped their implementation (3). In the meantime the recession had ended and the decrease in unemployment caused food stamp participation to drop from 19.3 million in 1975 to 16 million in 1978.

1977 Reform

With improved economic times, it was in a somewhat more favourable political atmosphere that the program faced its quadrennial reauthorization in 1977. The Food Stamp Act of 1977, the most comprehensive revision of the program since it became permanent in 1964, had as its centerpiece the elimination of the purchase requirement, "a requirement seen as a roadblock to participation by poor people who could not raise the necessary cash to buy stamps each month" (3, p. 10).

To counter the expected rise in caseload resulting from this reform, eligibility rules were tightened to disqualify higher income participants, shelter deductions were limited and the benefit reduction rate was raised from 25 to 30% to lower benefits of the better-off recipients, and spending limits were placed on the program (3). The U.S. Department of Agriculture (USDA) anticipated an increase of about 2.5 million clients as a result of eliminating the purchase price. The actual increase was 4 million recipients; tightened eligibility rules had removed only about half of the anticipated total (3). Among the new eligibility standards: (7)

- Removal of categorical (automatic) eligibility previously available to welfare and Supplemental Security Income recipients;
- Deductions were standardized. Prior to this itemized deductions had proven an administrative nightmare in which benefits had accrued disproportionately to the more affluent households (11);
- A household's income after deductions had to fall below the poverty line;
- Allowable liquid asset level was raised from \$1500 to \$1750;
- More stringent work requirements were implemented - all able bodied persons between 18 and 60 had to register for work unless already working 30 hours per week; students were required to work part-time; various workfare projects were authorized.

Elimination of the purchase price was a significant move for several reasons. First, participation by the very poor and elderly increased substantially so that the program became very well targetted on the poor - the average gross annual income for food stamp households in 1981 was under \$4000 (3). Second, the measure increased the income transfer aspect while downplaying the food consumption aspect of the program (2). Third, participants' freedom to allocate their funds was enhanced; recipients could devote a smaller portion of their budget to food (12). This partially defeated the basic idea behind in-kind benefits such as food stamps - to constrain the buying habits of recipients (prior to eliminating the purchase price, the average family allocated 25% of their budget to food stamps; 2). Fourth, the administration of the program was simplified because about 40% of food stamps in circulation were eliminated, thus reducing the burden on issuing and redemption agencies, and cash handling problems and abuse were ended (3, 4). Fifth, the black market in food stamps was reduced significantly since there was no longer any incentive to resell the stamps at a discounted value, and there were less stamps in circulation (3). Finally, resultant cost and caseload escalations pressured Congress into constantly raising the legislated spending caps. Each time the limit was raised, Congress enacted amendments to tighten eligibility and management of the program (3). Also, instead of reauthorizing the program every fourth year as the Food Stamp Act requires, it has been partially reauthorized once or twice yearly since 1977 (13).

1980-82 Amendments

After minor adjustments to the program in 1979 which reduced allotments and allowed more deductions for the aged and disabled, the Food Stamp Act of 1980 identified amendments under 38

subject headings. Several were directed at state administration including retrospective accounting, matching of income information and other verification, computerization, special financial audit review of high participation states, state incentives for reducing errors, and state liability for errors (7). Other amendments related to eligibility and benefit levels included:

- Annual adjustment of benefits (previously adjusted semi-annually);
- Lowering liquid asset limits from \$1750 to \$1500;
- Requiring states to issue photo identification cards to each household (without which clients could not receive stamps);
- Workfare pilot project extensions;
- Restriction on student participation; and
- Reintroduction of several itemized deductions.

The USDA estimated that these laws removed about a million people from the program, and that the 1977 and 1980 amendments reduced the potentially eligible population by 6 million (3). Restoration of itemized deductions became a contentious issue in Congress with some members claiming that very high income families might qualify for stamps. One estimate was that one in seven Americans was eligible for food stamps in 1980 (7).

The highlight of 1981 amendments was a major benefit cut of more than \$2 billion (14). Those most affected were the working poor. Food stamps were denied to strikers for the first time, most students were disqualified, and families with gross income greater than 130% of the official poverty line were excluded (15). The program was further tightened by new regulations aimed at reducing fraud and error: (16)

- Warning statements on application threatening prosecution for knowingly providing incorrect information;
- Stronger penalties for fraud, i.e., longer disqualification periods of six months for the first offence, 12 months for the second, and permanent disqualification for the third;
- Mandatory penalties (fines or jail terms) for unauthorized use of food stamps;
- New incentives for states to investigate and prosecute fraud. The USDA increased from 50% to 75% the funding of state costs incurred in conducting fraud investigations. Also states were allowed to keep 50% of the claims they collected;
- Tightened procedures for replacing lost or stolen stamps or Authorization to Purchase (ATP) cards; and
- Substantial reductions in the number of wholesalers authorized to accept and redeem food stamps (some wholesalers had been illegally redeeming food stamps).

Cuts in 1982 were minimal with Republicans anxious to dispel the notion that they had been unfair to the poor in 1981 (14). The Reagan administration had sought cuts of \$2.3 billion for fiscal 1983 but Congress agreed to a \$548 million reduction for 1983 (\$1.9 billion reduction from 1983 to 1985). The savings will come from penalizing states with error rates above 5%, reducing by 1% inflation adjustments for each of the next three years, rounding down instead of up payments to clients, restricting eligibility for emergency assistance, and permitting states to make a job search a condition of eligibility (14).

In early 1983, Reagan continues to push for further cutbacks in benefits. The 1984 budget proposal calls for a 9% cut in appropriations for the program.

Table 1 outlines changes in food stamp participation and costs at points of major change. The acceleration of caseload and cost is immediately apparent.

TABLE 1
FOOD STAMP PROGRAM OVERVIEW

<u>Fiscal Year</u>	<u>Participating States</u>	<u>Participating Households</u>	<u>Cost</u>
1964	22	360,000	\$ 29 million
1970	46	6.5 million	550 million
1972	47	10.5 million	1.7 billion
1974	50	13.5 million	2.7 billion
1976	50	17.4 million	5.3 billion
1978	50	16.0 million	5.5 billion
1980	50	21.7 million	10.2 billion
1982	50	21 million (e)	12 billion (e)

e = estimate

THE CURRENT PROGRAM

The Food Stamp Program of 1983, a product of its complicated and controversial history, is considerably different than the original one of 1964. Greatly expanded throughout the sixties and seventies, the program has been subjected to a succession of cutbacks in recent years in response to a weak economy. This section describes the structure of the present program by first discussing its administration, and then looking at how it actually works. From there, eligibility and benefits, maintaining program integrity, and characteristics of recipients are recounted.

Administration

Administration is shared by the federal, state, and local governments. The federal government pays the full cost of the benefits and half of the administrative costs, with the states picking up the other half. At the federal level, the program is operated by the Food and Nutrition Service (FNS) of the USDA which has the following responsibilities: implementing program changes; producing, handling, distributing, and refunding the food stamps; supervising data collection and quality control procedures; and overseeing program activities (12). States must conduct outreach campaigns to ensure eligibles know about the program, conduct quality control reviews to determine the incidence and dollar amounts of errors and plan corrective action when the error rate exceeds 5%, and maintain federal standards. County welfare agencies deal directly with participants and certify eligibility (7, 12).

How the Program Works

A person wishing to apply for food stamps would go to the local food stamp agency (most often the county welfare agency) and complete an application providing detailed information on family characteristics, income, and resources. A food stamp caseworker interviews the applicant, verifies the information, cross-checks with other agencies and determines eligibility within 30 days. The worker also informs the applicant that employable household members must register for work. Eligible applicants are issued photo-identification cards and given an authorization to purchase (ATP) card at least once a month. A cheque-like card that lists the amount of food a recipient gets per month, the ATP card is exchanged for food stamps at authorized vending offices - often banks or post offices. Some countries mail food stamps directly to the household. Those denied eligibility are informed of their right to appeal.

Certification periods generally last for 3 months (depending on employability and stability of income). Recipients must re-establish eligibility when the certification period ends by repeating the entire application process. The mean length of certification time was 7.5 months in 1975 (12).

The actual food stamp coupons come in books of three denominations: brown one dollar coupons, purple five dollar coupons, and blue-green ten dollar coupons. Each stamp in a book bears the same serial number. Exchanged at face value at authorized wholesale or retail food outlets, the coupons can be used to buy food, food stuffs, and seeds to grow foods. They cannot be used for non-food items such as pet foods, paper products, tobacco products, alcoholic beverages and prepared foods.

Following the path of the stamps themselves:

"After a requisition from the state for coupons, FNS orders coupons from a printer, American Bank Note, who ships them to a state issuance or inventory point. From there, the coupons go to local food stamp agencies for (distribution) to recipients. Grocers authorized to accept food stamps redeem them for cash at local banks. Then, the food coupons are deposited in the Federal Reserve system, and banks receive cash in return. Thereafter FNS buys the stamps from the Federal Reserve system, via a treasury account. Finally, the stamps are destroyed." (12, p. 46-7).

Eligibility and Benefits

To qualify for food stamps, all recipients must meet three basic criteria: net monthly incomes below the poverty line; liquid assets below \$1500 (\$3000 for households with a member over 60); work registration every six months. Eligibility is determined by subtracting certain deductions from gross income (see Appendix). Need must be greater than net income to qualify.

The benefits are based on the size of the family and the Thrifty Food Plan, a USDA plan tying all food stamp allotments to the U.S. average dollar cost for a diet meeting minimum standards for a family of four set by the National Academy of Science. A household with zero income after deductions would qualify for full benefits. For those with some net income, benefits are calculated by deducting 30% of this income from the Thrifty Food Plan amount for that size family (see Appendix for an example).

Preventing Error and Fraud

Maintaining public trust in the program requires extensive monitoring activities involving quality control and fraud prevention. States study quality control samples of participating and ineligible households to establish the dollar error rate - benefits issued to ineligible persons, overpayments, and underpayments. Corrective action is taken to reduce error rates above 5%. A 1974 study found 28.5% of bonus dollars were issued incorrectly, errors most concentrated on ineligible cases and on overissuing (12). By 1980, tightening of the program was evident with 5.0% payments to ineligibles, 5.2% overpayments, and 2.4% underpayments (3).

The Food Stamp Program, troubled since its inception by charges of waste, fraud, and abuse, has instituted a number of measures to prevent and discover fraud. Available evidence suggests that fraud has not been a major problem with the program - less than 3% of expenditures as reported in most studies (8, 12, 17) - nevertheless perceptions of widespread abuse continue and Congress has enacted several recent measures in response. These include getting social security numbers from participants, using computerized cross-checking systems, requiring photo identification cards, disqualifications and repayment requirements for fraud, and financial incentives and penalties to states for stopping fraud (3).

On the federal front, the USDA's Office of the Inspector General (OIG) combats criminal offenses including discounting, trafficking, and counterfeiting, as well as thefts from mail, insurance agencies, and food stamp printers. Over 2000 indictments for food stamp violations have resulted from OIG investigations (16). FNS also has a team of special investigators to detect retail violations.

States focus on recipient fraud. Administrative hearings - meetings of a food stamp official, the accused recipient, and a hearing official - handle most recipient fraud cases, most of which involve under \$100 in coupons. More serious cases are tried in criminal courts. Usually recipient fraud occurs because people do not declare income or falsely inflate the number of members in the household (18).

Characteristics of Participants

A socio-economic profile of food stamp recipients reveals a very poor and dependent caseload. USDA surveys found that: (3, 19)

- About 87% of Food Stamp households had monthly gross incomes below the poverty line (average gross monthly income was about half the poverty level);
- Most are dependent on transfer payments; less than 20% have earned income; about one-third receive aid to families with dependent children (AFDC);
- Average gross income was 24% of that of the overall U.S. population;
- 29% own their own homes compared to 67% of the rest of the population;
- 60% have no liquid assets;
- Over two-thirds do not own a vehicle;

- Disabled and aged persons accounted for 32% of cases, and a further 35% were responsible for the care of children or disabled adults; 12% were employed full time; 14% were employable (and required to register for work); the remainder were WIN participants, students, or working part-time;
- Nearly 70% of Food stamp households were headed by women (reflecting eligibility for AFDC recipients);
- Some 16% of heads were senior citizens; 61% were under age 45;
- Blacks accounted for nearly one-third of the cases, Hispanics another 10% (88% of the U.S. population is white);
- The average household size was 3.0;
- 71% of the recipients lived in cities.

EVALUATION OF THE PROGRAM

Any program is evaluated by how well it meets its stated goals. This is not so straight forward with food stamps, a program which ostensibly maintains its original goals of surplus reduction/nutrition although its emphasis shifted to alleviation of hunger and eventually to reduction of poverty. The most prominent original aim, surplus reduction, disappeared from the literature by the seventies as the food surplus evaporated. With food surpluses back in the headlines, it may once again become an issue in the food stamp debate but there is not yet evidence of this. The extent to which the Food Stamp Program achieves its current goals of enhancing nutrition, lessening hunger, and reducing poverty will be addressed in this part of the paper. The issue of replacing food stamps with cash will then be examined.

Food Stamps, Hunger and Nutrition

Food stamps, after the reforms of 1971, lead to a significant reduction of chronic hunger in the U.S. (2). In 1967, the Field Foundation, sponsoring a team of physicians whose investigation found widespread hunger and malnutrition in depressed areas of the country, spurred the subsequent liberalization of food stamp benefits. Ten years later, the Foundation again sent physicians to those same areas to assess the incidence of hunger and malnutrition. Summarizing their 1977 findings the medical group said: (20)

"Our first and overwhelming impression is that there are far fewer grossly malnourished people in this country today than there were ten years ago. Malnutrition has become a subtler problem ... This change does not appear to be due to an overall improvement in living standards or to a decrease in joblessness in those areas. In fact, the facts of life for Americans living in poverty remain as dark or darker than they were ten years ago. But in the area of food there is a difference. The Food Stamp Program, ... school lunch and breakfast programs, (and others) have made the difference." (p.9)

Food stamps have resulted in increased food purchases by recipients (21-23). But spending more money on food does not necessarily improve diet quality. Until very recently, the evidence suggested that food stamps were not very effective in improving nutritional status among low-income households basically because recipients bought more of the foods they were accustomed to rather than switching to more nutritional foods (4, 12, 22). Studies published in the past two years, however, support a connection between food stamps and improved diet quality (22, 24). Furthermore, food stamp recipients buy more nutrients per dollar than do non-recipients (3). Recipients allocate food dollars in the same general food categories as non-recipients, but buy less expensive foods and eat out less often (9, 20, 22).

In short, food stamps, as a consequence of increased income, do have an overall positive effect on nutrition. This does not necessarily mean that recipients purchase nutritionally adequate diets. In fact, only 14 to 18% of households spending at the Thrifty Food Plan level achieved a diet with 100% of the recommended daily allowance for the basic nutrients (3). Thus, recipients would have to supplement their stamps with cash (or receive benefits of other food programs) to reach this standard.

Effects on Poverty

The Food Stamp Program set out to ease the effects of poverty rather than eliminate the causes of poverty (5). It has indeed reduced hunger and, in doing so, contributed to a decline in infant mortality rates (10). But, as the profile on food stamp recipients evidenced, people getting food stamps need them, and benefits so well targetted on the poor would be expected to reduce the incidence of poverty. One study showed that four million people were lifted above the poverty line because of food stamp benefits (20). Another concluded that the national poverty reduction rate due to food stamps is between 8 and 16% (12).

Despite these successes, however, the program fails to help six million poor Americans (3). Because of administrative complexities, stigma, limited access to food stamp offices, and lack of information on the part of the poor, many eligibles do not apply for benefits (12, 20, 25). Moreover, most of those who do receive benefits are not lifted out of poverty by food stamps. The program, however, is only one aspect of the American income maintenance system (only 6% of food stamp beneficiaries receive no other government transfer) which, in total, reduces the proportion of the population living in poverty to 6.4% (21). Because food stamp income is inversely related to combined income from all other sources, the program's major role is to reduce income inequality among income maintenance system beneficiaries (12). Food stamps narrow inter-state welfare differentials, and offer

the only source of support for many low-income households failing to qualify for categorical assistance. "So, as welfare benefits have failed to keep pace with inflation and as states have dropped coverage of two-parent families or further restricted eligibility for general assistance, food stamps have had to fill a larger and larger share of the assistance gap. For some states with serious budget deficits, food stamps have become an implicit form of revenue sharing" (13, p. 16). Table 2 reveals vast interstate differentials in participation rates reflecting, in large measure, benefit rates for other assistance programs. To the extent that states severely restrict welfare benefits, food stamps are left to fill in the gaps, and the ability of the program to raise people over the poverty line is curtailed.

TABLE 2
PARTICIPATION RATE BY STATE (JANUARY 1983)

	<u>Stamp Recipients</u>	<u>Share of Population</u>		<u>Stamp Recipients</u>	<u>Share of Population</u>
Mississippi	507,500	20.0%	Florida	852,900	8.1%
Alabama	622,100	15.8%	Missouri	394,600	8.0%
Kentucky	514,100	14.0%	Virginia	427,300	7.8%
Dist. of Columbia	85,900	13.7%	Arizona	218,700	7.7%
South Carolina	436,700	13.6%	New Jersey	548,200	7.4%
Arkansas	307,000	13.4%	Maryland	312,300	7.3%
Tennessee	621,200	13.4%	South Dakota	49,500	7.3%
West Virginia	256,800	13.1%	Wisconsin	337,200	7.1%
New Mexico	171,000	12.7%	California	1,704,400	6.9%
Louisiana	631,800	12.1%	Massachusetts	393,000	6.8%
Georgia	637,000	11.2%	Oklahoma	215,100	6.8%
Michigan	1,013,000	11.1%	Idaho	65,000	6.7%
Maine	124,900	11.0%	Washington	287,100	6.7%
Hawaii	99,000	10.0%	Iowa	190,500	6.6%
New York	1,771,400	10.0%	Montana	47,600	6.0%
Ohio	1,071,000	10.0%	Colorado	176,600	5.3%
Oregon	255,300	9.6%	Kansas	128,700	5.4%
Illinois	1,068,700	9.3%	Minnesota	222,400	5.4%
North Carolina	537,900	8.9%	Utah	84,800	5.4%
Pennsylvania	1,061,000	8.9%	Connecticut	168,300	5.3%
U.S.	20,651,700	8.9%	Nebraska	83,000	5.2%
Vermont	44,500	5.6%	New Hampshire	44,900	4.7%
Rhode Island	61,000	8.5%	North Dakota	29,300	4.4%
Texas	1,283,300	8.4%	Alaska	17,600	4.2%
Delaware	49,500	8.3%	Nevada	33,000	3.7%
Indiana	450,000	8.3%	Wyoming	13,100	3.5%

To summarize, it appears that the Food Stamp Program has been quite effective in achieving its purpose of alleviating malnutrition and poverty. But can these successes be better attained through a cash transfer?

Food Stamps Versus Cash Transfers

Food stamps have been attacked by economists as an inefficient transfer mechanism (24). Printing, distribution, and special handling of stamps constitute a considerable fraction of the total cost of the program. On the other hand, proponents of stamps maintain that the program has met its goals and enjoys more political support than cash transfers. Chances of the Food Stamp Program being "cashed out" are almost nil because of political interests and the sheer size of it (4, 11, 26) but the arguments for and against maintaining food stamps are a good indicator of the strengths and weaknesses of the program.

Arguments for Maintaining the Program

- a) Public Support Perhaps the strongest pro-stamp argument is that political support for stamps is greater than for unrestricted transfers (27). Congress was willing to aid the working poor through food stamps but not through cash aid (28). The reason for this is public support for food aid is stronger than for welfare programs (8, 20), essentially because the public is concerned for the nutritional well-being of the poor (12) and because food assistance is not usually perceived as a form of redistribution: "Instead of a hand dipping into the citizens' own pockets, it appears to them as the sharing out of some vaguely imagined agricultural surplus in which they have no financial or personal interest" (10, p.16).

b) Hunger and Nutrition Food stamps are popular with proponents because they do what they are supposed to do - reduce hunger and malnutrition. Although most research asserts that food stamps are no more effective at accomplishing these goals than cash grants would be (12, 24), one recent study concludes that food stamps are more effective than cash in improving the nutritional status of low-income households (22). Before the elimination of the purchase requirement, food stamps stimulated a much larger increase in food expenditures than an identical cash transfer. The removal of the purchase price decreased this effect, nevertheless it is still present (9).

c) In-Kind Benefits Provision of in-kind benefits enhances the social control of the program. In-kind transfers such as food stamps restrict recipient choice, encouraging use or consumption of a particular good to society's benefit. The benefits to society of food stamps may include the following: (12, 29, 30)

- extra food consumption may help recipients become healthier and more productive, decreasing their need for subsequent welfare and medical assistance;
- taxpayers derive more satisfaction providing food rather than cash to recipients (suspecting that cash may be used irresponsibly);
- greater food consumption aids the agricultural sector; and
- such vouchers involve lower administrative costs than direct commodity distribution.

- d) Responsiveness The program provides emergency relief to victims of natural disasters. It has its greatest impact on depressed areas and is very responsive to unemployment (13). In fact, for each 100 unemployed individuals, food stamp enrollment rises by 95 persons (2). Thus food stamps help those most in need and does so quickly.
- e) Equity As discussed previously, food stamps, with universal nationally uniform benefits based on need, fill in the inequitable gaps of the income maintenance system (2, 13).
- f) Work Incentives A major component of all income transfer programs is work incentives, and food stamps, available to the working poor and with a disregard of \$85 and a benefit reduction rate of 30%, guard against a decline in work effort.
- g) Multiplier Effect Food stamp dollars circulate a number of times in the local economy and have a substantial multiplier effect of 3.64. Suspension of the program would severely affect the food supply and service industries. Unlike cash, food stamps must be spent, a significant factor in a slow economy (7, 8).
- h) Maintain Benefits Abolishment of the Food Stamp Program does not necessarily mean that society will be willing to transfer an equal amount of cash to recipients. Those on food stamps could not withstand a major reduction of benefits.

Arguments Against Maintaining the Program

- a) Administrative Cost The major problem with food stamps is the extra administrative costs entailed in limiting recipient expenditure to food. It costs around 13 cents to deliver a dollar's worth of stamps, about twice as much as direct cash payments (28). In addition to the direct costs, indirect expenditures such as extra checker time at grocery stores to separate eligible items from ineligible, and additional costs borne by banks are undoubtedly passed on to the consumer (11). The experience of Utah demonstrates the large cost differential: In allowing welfare recipients on food stamps to receive checks sent by certified mail rather than food stamps, Utah spent 39 cents per family instead of \$2.29, the cost for processing food stamps (31).

- b) Recipient Satisfaction Even though recipients generally are enthusiastic about the Food Stamp Program (4), cash payments are more popular (2, 30) because participants would benefit more economically (32), and have more freedom of choice (30).

- c) Public Attitude The Food Stamp Program, although it enjoys more public support than any other welfare program, has attracted progressively more public criticism as it has expanded (5). The public perceives widespread fraud and abuse (3).

- d) In-Kind Assistance Aside from lower administration costs, in contrast with in-kind transfers, cash benefits minimize interference with the recipients' lives, limit interference with the market system, and assume recipients know what's best for them (29). Also, that food stamp recipients may be more healthy and productive as a consequence of the benefits remains to be proven (30).

- e) Nutrition The findings on nutritional benefits of food stamps over cash are equivocal. In any case, even if cash payments lead to less beneficial consumption, a program to educate recipients on nutrition and health may be a more efficient means to improve consumption (30).
- f) Stigma Food stamps immediately identify clients using them as poor and dependent.
- g) Constraining The primary advantage of food stamps over cash is that coupons constrain the recipient to buying food. But with the majority of participants having to supplement their stamps with cash - maximum benefits per person per meal are about 70 cents - the coupons become useless for this purpose.
- h) The Stamps Themselves The very existence of the stamps presents opportunities for theft, counterfeiting, and sale on the black market. Having to issue stamps requires the establishment of outlets for issuance, cashing operations and other institutions which make surveillance and good administration extremely difficult (4). Constant changing of the program has made administration all the more difficult.
- i) Welfare Reform The expansion of the Food Stamp Program has made more fundamental welfare reform increasingly unlikely. "Direct beneficiaries, program administrators, interest groups and sympathetic congressmen constitute a formidable 'public' that makes (reform) a remote possibility" (11, p. 528). The billions that are spent on food stamps means money is unavailable for change. The Food Stamp Program perpetuates the rejection of "the goal of eliminating the causes of poverty" (5).

CONCLUSION

The American Food Stamp Program has been quite successful in achieving its goal of assuring the poor of a minimum level of food consumption. Its positive features include its relatively general public acceptability, universality of coverage, and effective targetting. In short, it works. Ironically, the program has attracted consternation partially because of this success - it is very responsive to need and as need grows so does the program (13). Prolonged inflation and unemployment (for every percentage point rise in unemployment, average annual participation increases by 1.2 million people at a cost of \$600 million) have prompted constant calls for cutbacks and charges of fraud and abuse. In this sense, the program has been unfairly criticized.

On the other hand, it has fundamental limitations. Administrative costs, recipient inconvenience, and bureaucratic inefficiency are quite high. And perhaps most important, "the conditions which would support the choice of a food stamp program rather than a cash transfer program have not been shown to exist" (30, p. 602). With 21 million people depending on the program, however, it has become a firmly entrenched part of the American welfare system, and even though it might not be the most logical way of helping, its immediate future is secure.

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FOOD STAMPS:

Do You Qualify?

1. ARE YOU BELOW THE ASSETS CEILING?

Households cannot have liquid assets in excess of \$1,500. (Households of 2 or more persons, one of whom is 60 or older, may have up to \$3,000.)

Assets which count include cash, checking or savings accounts, stocks and bonds, and non-income-producing land or buildings other than your home and its lot.

Assets not counted include a home and surrounding lot, personal belongings and household goods, burial plot, life insurance policies, inaccessible funds (irrevocable trusts, funds in probate, etc.), and one vehicle needed for work (up to value of \$4,500).

Additional vehicles not needed for work are counted, as is the value in excess of \$4,500 of the primary vehicle.

2. WHAT IS GROSS INCOME?

Gross income is a household's total, nonexcluded income, before deductions are made. Gross income limits for non-elderly/disabled households are:

One-person household	\$507 monthly
Two-person household	674
Three-person household	841
Four-person household	1,008
Five-person household	1,175
Six-person household	1,342
Seven-person household	1,508
Eight-person household	1,675
Each added person	+167

3. WHAT CAN YOU DEDUCT?

Every household may deduct:

Standard deduction of \$85.
18 percent of earned income (wages/salary).
Actual costs of dependent care and/or a portion of high shelter costs, up to a maximum of \$115.

Households with elderly (60 or older) members or those who receive SSI or social security disability payments may also deduct:

Medical costs over \$35 a month incurred by elderly or disabled, if not reimbursed or insured.
An extra deduction for high shelter costs over 50 percent of household's adjusted income.

4. SAMPLE ELIGIBILITY TEST: Family of four, non-elderly/disabled. Income includes \$200 in wages, \$210 in public assistance.

Gross income limit: \$1,008
Total income: 410

Income is below limit. Determine benefit level based on family's monthly net income.

5. HOW TO CALCULATE
NET INCOME:

Same sample family of four. Subtract \$200
18 percent deduction from earned income: -36
\$164
Add all other income: +210
\$374
Subtract standard deduction (\$85): -85
\$289
Subtract child/dependent care costs: -54
You have adjusted income: \$235

Determine balance available for any excess
shelter costs (\$115 limit, minus amount
deducted for child care): \$115
-54
\$ 61

If shelter costs are more than half of
adjusted income, household may qualify
for excess shelter deduction. \$ 70 utilities
120 rent
\$190 shelter

Half of adjusted income, rounded up: \$190
Excess shelter cost: -118
\$ 72

Since excess shelter cost (\$72 in example
shown) is more than the balance available
after child care was deducted, the balance
(\$61) is the most that can be deducted for
excess shelter.

To determine net income, subtract shelter
cost allowable from the adjusted income: \$235
-61
\$174

6. HOW TO CALCULATE
BENEFITS:

Subtract 30 percent of household's
net income (rounded up) from the cost \$253
of the Thrifty Food Plan for the house-
hold (sample 4-person household): -53
\$200

The first month's benefits will be prorated
if less than a full month is covered, depending
on date of application.

For specific information on your own situation, contact your local food stamp office.
The Food Stamp Program is available to all eligible persons regardless of race, color,
creed, sex, age, national origin, political beliefs, or handicaps.

POOR

QUALITY

ORIGINAL